



REPORT OF THE STUDY GROUP ON BANK PROCEDURES

BANKING COMMISSION
(Government of India)
BOMBAY
1971

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PFD. 208
3,000

Price : Inland Rs. 7.50 or
Foreign £ 0.88 or \$ 2.70



Printed in India in 1972, at the Examiner Press, 35, Dalal Street, Fort, Bombay.
Published by the Manager of Publications, Delhi.

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CHAPTER 1

INTRODUCTION

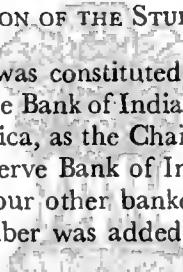
CONSTITUTION OF THE STUDY GROUP

1.1 According to one of its Terms of Reference, the Banking Commission set up by the Government of India is required to make recommendations for improving and modernising the operating methods and procedures and the management policies of commercial banks. The Commission appointed the Study Group in February 1970 to go into the matter and to make suitable recommendations.

COMPOSITION OF THE STUDY GROUP

1.2 Initially, the Group was constituted with Shri D. R. Joshi, former Executive Director of the Reserve Bank of India and member of Local Advisory Committee of the Bank of America, as the Chairman, Shri K. B. Chore, attached to the special cell in the Reserve Bank of India to assist the Banking Commission, as the Convener and four other bankers as members. Subsequently in March 1970, one more member was added to the Group.

The Group was, thus, composed of the following :

(1) Shri D. R. Joshi, 	.. Chairman
(2) Shri T. N. Ramamurthi, Central Bank of India, Bombay.	.. Member
(3) Shri N. K. Randeria, State Bank of India, Bombay.	.. Member
(4) Shri V. Mahadevan, National Institute of Bank Management, Bombay.	.. Member
(5) Shri S. P. Chandavarkar, Union Bank of India, Bombay.	.. Member
(6) Shri Krishan Murari, First National City Bank, Bombay.	.. Member
(7) Shri K. B. Chore	.. Convener

In addition, Shri J. B. Kamath of the Central Bank of India attended most of the meetings of the Study Group and took active part in the deliberations.

TERMS OF REFERENCE

1.3 The Terms of Reference of the Study Group were as under :—

- (i) To review the operating methods and procedures prevalent in the banking system in the country and to make suitable recommendations for their improvement, keeping in view the need for rendering speedy and efficient service to various types of constituents as also the safety of banking transactions.
- (ii) To make recommendations on any other related subject matter which the Study Group may consider germane to the subject of enquiry or any related matter which may specifically be referred to the Group by the Commission.

THE SCOPE OF STUDY

1.4 The Group addressed itself mainly to the task of identifying the areas in bank procedures requiring improvement and suggesting methods for rationalisation. Considering the time at its disposal, no attempt was made to devise a model Book of Instructions or uniform registers, forms or documents for the use of various banks. It concentrated its efforts on the examination of various bank procedures relating to customer services, grant of credit as well as internal systems with the twin objectives of achieving greater degree of customer satisfaction and eliminating redundant procedures and practices. Certain categories of bank procedures, *i.e.*, those relating to foreign exchange business, issue of guarantees, safe custody, safe deposit vaults, executor and trustee business, which *prima facie*, appeared to be fairly satisfactory or which catered to the needs of only a small section of the banking public were either completely left out of the scope of study or were not gone into in great detail. The recommendations of the Study Group should, therefore, be considered as illustrative rather than exhaustive.

As suggested by Shri R. G. Saraiya, Chairman of the Banking Commission, while inaugurating the Study Group, specific problems relating to the bank procedures which were being studied by institutions like the National Institute of Bank Management and the Indian Banks' Association, have not been examined in detail by the Group but some of the findings and recommendations made by these bodies have been adopted with or without modifications. The Group has also not gone into the procedures followed by co-operative banks.

PROCEDURE OF ENQUIRY AND METHODOLOGY FOLLOWED

1.5 In the early stages of its deliberations, the Study Group decided not to issue any questionnaire to banks, their constituents or other represen-

tative institutions on matters relating to bank procedures, except in respect of advances to small scale industries, in view of the fact that the Banking Commission had already issued an exhaustive questionnaire which contained several questions on this subject. It appointed a sub-committee to examine the various types of bank procedures and to make suggestions for consideration of the Group. The members of the sub-committee, besides drawing on their own experience as bankers, also studied books of instructions, forms and inspection manuals of a few selected banks. The sub-committee was composed of the following members :

1. Shri J. B. Kamath
2. " S. P. Chandavarkar
3. " V. Mahadevan
4. " Krishan Murari
5. " K. B. Chore

The sub-committee held in all 22 meetings, in some of which experts on specific topics under discussion were invited for exchange of views. On the basis of the notes submitted by the sub-committee, the Study Group prepared a list of tentative suggestions which were discussed with the representatives of selected banks in the country, both in the public and the private sectors, at the conferences held at Calcutta, Bangalore, Madras, Delhi and Bombay.

Before finalising its recommendations, the Group has taken into account the views of the bankers expressed during these conferences and the replies received from banks to the questionnaire on small scale industries issued by it as well as certain replies to the questionnaire issued by the Banking Commission, particularly those relating to customer services.

MEETINGS OF THE STUDY GROUP

1.6 The inaugural meeting of the Group was held on the 5th March 1970. Subsequently, 5 meetings were held in 1970 and 5 meetings in 1971. Shri R. G. Saraiya, Chairman, Shri V. G. Pendharkar, Member-Secretary, Dr. B. Datta and Shri N. Ramanand Rao, members of the Banking Commission, attended some of the meetings of the Group.

PREPARATION AND FINALISATION OF THE REPORT

1.7 The draft synopsis of the report suggesting the manner in which the various recommendations of the Study Group should be presented was approved by the Group in its meeting held on the 11th February 1971. The draft report was edited by a sub-committee of the Group consisting of Sarva-

shri D. R. Joshi, T. N. Ramamurthi, and S. P. Chandavarkar. The report was discussed and finalised by the members of the Study Group in the meeting held on the 14th June 1971.

OUTLINE OF THE REPORT

1.8 The report of the Study Group is divided into sixteen chapters. The first two chapters introduce the subject, contain a brief review of the bank procedures in India and explain the Study Group's approach to the subject as well as the various points which banks should keep in mind while implementing the recommendations. The next four chapters (3 to 6) are devoted to customer services, *viz.*, acceptance and payment of deposits, collection of local and outstation cheques and bills and issue and payment of drafts. Chapters numbers 7 to 11 deal with procedures relating to grant of credit, with particular reference to the financing of priority sectors of agriculture, small scale industries, exports and other small borrowers. The next three chapters (12 to 14) are devoted to the internal systems of banks and deal with inter-branch accounts, internal audit/inspection and periodical returns relating to advances. The fifteenth chapter incorporates the recommendations of the Study Group on various miscellaneous matters not covered by earlier chapters. The concluding chapter (16) summarises the recommendations of the Study Group.

There are seven annexures to the report. Annexure I reproduces the relevant extracts from the Banking Commission's Office Orders regarding constitution of the Study Group. Annexure II gives the names of various bankers who attended the conferences at different centres organised by the Study Group for eliciting their views on its tentative recommendations, while Annexure III mentions the names of bankers and other experts with whom the members of the Study Group had discussions on certain specific topics. Analysis of replies to certain questions relating to procedures in the questionnaires issued by the Banking Commission and the Study Group is given in Annexure IV. Annexure V illustrates the working of manifold system for collection of bills, while Annexure VI reproduces a paper on 'Introduction of Giro System in India' presented to the Study Group by the Convener. A specimen of the credit report of a Credit Investigation Agency in U.S.A. is given in Annexure VII.

ACKNOWLEDGEMENTS

1.9 The Group wishes to place on record its gratitude to the Chairman, Member-Secretary and other members of the Banking Commission for affording it an opportunity to help the Commission in achieving the important and arduous task entrusted to it as well as for attending some of the meetings of the Group. It is also obliged to the bankers and other experts, whose names have been mentioned in Annexures II and III, for giving the

benefit of their views during the discussions on various topics as also to the banks and other institutions for deputing them at its request. The Group is also thankful to Shri S. G. Shah, Secretary of the Indian Banks' Association and Dr. N. C. Mehta, Director of the National Institute of Bank Management for their co-operation in making available to it the papers pertaining to various studies carried out by their institutions.

The Study Group wishes to place on record with great pleasure its gratitude to the Convenor, Shri K. B. Chore, for planning and organising the arduous work of the Group and facilitating the discussions. We also owe a special debt of gratitude to Sarvashri B. K. Aggarwal, V. S. Vartak and V. V. Nachane who attended the meetings, assisted the Group in its discussions and bore the burden of collecting and processing the material required by the Group.



CHAPTER 2

BACKGROUND AND FORMULATION OF APPROACH

2.1 According to the modern concept, banking is a business which not only deals with borrowings, lending and remittance of funds, but it is also an important instrument for fostering economic growth. The contribution of commercial banks to the economy depends upon their successful business performance which is conditioned by the quality of service they are able to render to their customers. Being basically service oriented institutions, the banks' own prosperity also depends upon good customer service. Normally with the increase in business of banks, their operating methods undergo a process of evolution resulting in the emergence of shorter and quicker procedures necessary to handle the increased volume of work without unduly increasing the cost. In the United States of America, United Kingdom and other developed countries, a change of this nature has been brought about during the last two decades by transition from manual to mechanical methods and procedures and from old established practices to current techniques, by a more scientific approach to the solution of problems and by provision of new and improved banking services to suit the changing needs of the customers. The innovations introduced by banks in these countries, *inter alia*, include automatic cash dispensers to make payments round the clock, night safe facilities, issue of credit cards and cheque guarantee cards, introduction of Giro system for transfer of funds from one account to another without the use of cheques, electronic fund transfer service for accounts receivable to benefit local merchants, micro-filming of records, coin sorters, improved layout for rendering better customer service, consultancy service to provide advice on matters such as estate duty, income-tax, investment and insurance, and one stop banking where every conceivable financial service is available under one roof. Some of the banks have also introduced computerised savings systems to facilitate quick service to customers.

A BRIEF REVIEW OF THE CHANGES IN BANK PROCEDURES IN INDIA AND NEED FOR THEIR MODERNISATION

2.2 It may be appropriate here to review in brief the developments in the banking sphere in India to put the question of reform of procedures and practices in its proper perspective. Commercial banking in India developed in the past to serve the interests of trade and commerce and, only at a later stage, of industry. Naturally, practices and procedures were patterned to suit the requirements of the type of the clients served. Offices of banks

were located at a few places, mostly at the important trade and industrial centres. Under the impact of planning, the economy of the country has undergone a quick transformation. The industrial base has been strengthened and largely diversified. Further, in view of various steps taken for improving production, the agricultural sector has shown a very significant development. It is no longer isolated and is increasingly being recognised as an industry requiring financial assistance of the same, if not greater, magnitude as is provided to other industries which engage in manufacturing activities. Further, as a policy objective, neglected sectors of the community—the small farmer, the artisan, the small industrialist, etc.—require to be assisted on a priority basis ; underdeveloped areas require to be given special consideration to enable them to grow faster economically.

The development and transformation which has taken place in the economy of the country over the past two decades also saw a transformation in the structure of commercial banking in India. The number of banks has been reduced from 566 in 1951 to 86 in June 1970. Further, with the nationalisation of 14 commercial banks with deposits over Rs. 50 crores, about 83 per cent of the aggregate deposits and credit and 80 per cent of the number of offices have now come into the public sector. The scheduled commercial banks have under their planned expansion programmes, opened a large number of offices which during the period 1955-68 numbered 4,605, of which 1,231 (27 per cent) were in rural areas, and 1,649 (36 per cent) in semi-urban areas and yet only 5,000 villages are being served by commercial banks ; this is not even 1 per cent of the total number of villages (5,64,000) in the country. Many more offices, especially in the rural and semi-urban areas, will, therefore, require to be opened during the next few years to bring banking to the door of the customer. This by itself will not, however, serve the objective in view if the policies and procedures of banks are not changed suitably so that the customer is in a position to utilise their services to the maximum extent. This then is the rationale for having a close look at the procedures and practices of commercial banks and suggesting measures for their improvement.

An idea of the phenomenal increase in the volume of banking business and the number of customers served may be had from the table on page 8. The number of offices of commercial banks has further increased to 10,131 as on 26th June 1970. Similarly, the total deposits and advances have increased to Rs. 5,263 crores and Rs. 4,239 crores respectively as on that date.*

Bankers by nature are conservative in their outlook and, while this has its advantages, they are very reluctant to make changes in policies and procedures which to them have the hall-mark of time. With the rapid changes

* *Source* : Annual Report on the working of the Reserve Bank of India and Trend and Progress of Banking in India for the year ended June 30, 1970.

STATEMENT SHOWING THE POSITION OF COMMERCIAL BANKS IN INDIA
DURING THE PERIOD 1951 TO 1968*

(Amount in Rupees Crores)

	End of 1951	End of 1956	End of 1961	End of 1966	End of 1968
No. of reporting banks	566	423	292	100	86
No. of bank offices	4151	4067	5012	6593	7648
Total deposits in India	908	1159	2012	3587	4478
No. of deposit accounts (in 000's) (1) ..	3234	4024	6114(2)	12056(3)	16108(3)
Total advances	627	824	1293	2455	3159
No. of cheques cleared (in 000's) (4) ..	28047	39420	58091	81879	90805
Amount of cheques cleared (4)	7878	8441	13273	22798	27320
@Amount of bank debits (4)	9861	11699	17144	N.A.	N.A.
No. of bank employees (in 000's)	N.A.	79	115	170	197
Establishment expenses (4)	15.40	21.74	35.83	89.88	127.53

(1) With Scheduled Commercial Banks

(2) As on 28th April

(3) As on 31st March

(4) For the whole year

@ Bank debits data relate to debits to current and savings accounts for the period 1951-56
and to debits to current, savings and overdraft accounts thereafter.

N.A.—Not Available.

* Source : Statistical Tables relating to Banks in India.

in the banking structure and the number of branches they have had to open during a short period, banks have been largely preoccupied with problems of recruitment, training and staff relations on the one hand and the need to exercise proper supervision and control over the increasing number of offices on the other. They, however, realise that the policies and procedures they follow must in the end result in offering efficient banking service to the community they serve. A few banks have already introduced innovations such as teller system, loose leaf ledger system, manifold forms, use of adding and accounting machines, etc., on an experimental basis, at certain important branches. They have also recently established Organisation and Methods Departments for the purpose of streamlining the procedures. Further, a number of banks have liberalised their savings bank account rules, introduced new schemes for deposit mobilisation, e.g., home savings scheme, coupon deposit scheme, children's savings scheme, retirement plan accounts, piggy deposits, mobile banks, morning and evening branches, evening shopping counters, drive in counters, consumer loan scheme, credit cards, and offered concessions to account holders such as issue of free mail transfers, collection of cheques drawn on their branches at par and issue of travellers' cheques.

free of charge. With the tremendous increase in their operations, banks in India will, however, continue to face problems of growth and they will have to take more constructive and energetic steps for the betterment of operational, procedural and management techniques.

FACTORS GOVERNING THE BANK PROCEDURES

2.3 In evolving banking practices and procedures, attention has to be focussed on ensuring safety of funds, efficient service to customers and economy of operations so that the bank is run on a profitable basis. Traditionally, however, the safety angle was given the highest consideration and anything that was suspected to affect it adversely was not considered suitable. In the process, while efficient service to the customer was accepted as an important objective, in practice the procedures tended to secure safety in a large measure at the cost of efficient service. Whenever, for instance, a fraud occurred at any place, the procedures were tightened so as to eliminate the possibility of a repetition of the fraud. Further, the principle of dual control was adopted as a basis for all transactions since it was felt that it was always safer to have two people responsible for a transaction rather than one.

It is time now to view efficient customer service in its proper perspective and to see if it could not be achieved to a fuller extent by curtailing certain procedures which were originally considered as essential from the safety point of view. Many of the procedures relevant to the safety angle were devised when the banks were comparatively small, their clientele was confined to a small section of the community and devolution of responsibility was hardly thought of. By eliminating procedures which were originally introduced to ensure safety, it might be possible to reduce cost and the time taken in completing a transaction thus giving satisfaction to the customer which might result in increase in business. Further, it is not unlikely that the savings in cost and the additional income available out of increased business might adequately compensate for the probable loss that might arise as a consequence. In fact, experience has shown that a large number of innovations have not in any way resulted, as was feared, in impairing the safety element.

STUDIES ALREADY MADE ELSEWHERE IN REGARD TO IMPROVEMENT IN BANK PROCEDURES

2.4 The first organised attempt to bring about an improvement in bank procedures was made by the Reserve Bank of India by holding a Seminar of Chief Executives of Small and Medium sized Banks at Madras in 1963 under the initiative and guidance of its then Executive Director, Shri D. R. Joshi. As a result of the deliberations in the Seminar, specimen forms of credit report, analysis of balance sheet, internal audit report, statements to be obtained by the head office from branches and statements to be submitted to the Board of Directors at its meetings were prepared. The Reserve Bank also

held in December 1968 a Seminar on financing of agriculture by commercial banks. The Bankers Training College of the Reserve Bank of India at Bombay issued in 1968 a Hand Book for Bank Inspectors.

Recently the National Institute of Bank Management organised a series of workshops on urgent matters concerning the banking industry. A workshop on 'Customer Service' was organised in December 1969 which, *inter alia*, considered the introduction of the teller system for cash payments and receipts and improvements in the arrangements for clearing cheques. The other workshops organised by it considered financing of exports, agriculture and small scale industries, deposit mobilisation and management development for the banking industry. It has also appointed a Study Group on information systems, data processing and computerisation. Similarly, the Indian Banks' Association is considering certain improvements in the procedures for clearing of local cheques and collection of outstation cheques and bills. The Co-ordination Committee of Public Sector Banks has appointed Study Groups to evolve suitable arrangements for inter-bank drawings and exchange of credit information amongst bankers. As indicated in paragraph 4 of Chapter 1, the specific problems dealt with or being dealt with by the above bodies have not been gone into in detail by our Study Group and their findings and recommendations have been scrutinised and adopted with or without modifications.

THE STUDY GROUP'S APPROACH TO THE SUBJECT

2.5 While formulating its recommendations, the Group has taken note of the long-term policies which the banks may have to adopt in view of the prospective increase and diversification of business as well as need to introduce mechanisation to a larger extent in due course. The basis of our various recommendations is decentralisation of authority and elimination of dual control, to some extent as an initial step, by placing more faith in the employees. We believe that if responsibilities are cast on people, they rise to the occasion and shoulder them. We also believe that stray instances of frauds should not be the sole reason for making the procedures more cumbersome.

We recognise that the recommendations of the Study Group may require to be implemented with modifications to suit the size, area of operations, volume of transactions, etc., of individual banks, as also their ability to bear the additional cost likely to be incurred, keeping in view special agreements, if any, they may have with their staff. Where considered necessary, banks may implement our suggestions, on a pilot basis, in the first instance. Some of the suggestions of the Group are based on practices which are already in operation in some banks ; they have nevertheless been included in this report so as to be useful to other banks.

Apart from the procedures relating to receipt and payment of deposits, agency services such as collection of bills and issue of drafts, mail transfers, etc., and those involved in grant of credit, we have also considered how the working at a branch should be co-related with the working at a controlling office through inter-branch transactions, periodical returns and inspections. In this connection, we have referred to the question of the pattern of organisation in a bank only from the point of view of and to the extent necessary for ensuring the effectiveness of the procedures recommended and the need to decentralise authority. In view of the vast number of branches banks are opening and the different sectors of the community they are called upon to serve effectively, in many cases in close co-operation with financial and other agencies in a locality, we have no doubt that the organisational pattern and personnel policies of each bank will receive close scrutiny, may be in consultation with management experts. We are firmly of the view that no amount of innovation in banking practices and procedures will have any effect in achieving the object in view, unless the organisation of work and personnel policies in a bank motivate the staff at all levels to do their best in accomplishing the tasks set before them. The need for this is all the more now as banks have been called upon to undertake greater responsibilities in the country's developmental efforts.



CHAPTER 3

DEPOSITS

3.1 Customers feel the impact of a bank's practices and procedures, when they contact it either personally, through a messenger or through post. The most important contact point is the counter and the bulk of the transactions at the counter relate to acceptance and payment of deposits. The contact through post is mostly through furnishing of statements of account, credit/debit adviccs, balance confirmation letters, letters of complaint and letters seeking advice. A bank can create a good image in the minds of its customers, in order to retain its business and to attract fresh business, firstly by minimising their waiting time at the counter, secondly by promptly complying with their stop payment and standing instructions and thirdly by making the statements of account and pass books neat, legible and accurate through adoption of mechanisation or by entrusting this work to employees with neat and legible handwriting. Certain suggestions for improvements in bank procedures relating to deposits, keeping these aspects in view, are made in this chapter.

TELLER SYSTEM

3.2 The teller system, both as regards cash receipts and cash payments, is one of the measures to expedite transactions at the counter. The usual procedure for making cash payment of a cheque requires the services of the ledger keeper, the passing officer and the paying cashier. The teller system entrusts the duties of these three to one person. Similarly, in regard to cash receipts, the functions of the cashier, the scroll book writer and the officer who countersigns the receipts, are performed by the teller.

A few Indian commercial banks have adopted the teller system on an experimental basis but the details of procedures followed by them vary. Some of these procedures are described below :—

(i) The teller-cum-ledger keeper is authorised to pass cheques upto a specified amount. He is provided with the relative ledger sheets and the specimen signatures' binder. On presentation of a cheque, he scrutinises the instrument, verifies the signature, posts it and makes payment. The cash received by him in the morning from the cash department is accounted for to the latter in the evening.

In a variation of this system, the functions of the cashier are separated. The teller scrutinises the cheque, verifies the signature and posts it but does

not make payment. Instead, he himself hands over the cheque to the cashier for making payment.

(ii) The record of customers' accounts and their specimen signatures are maintained in duplicate. The teller, who is authorised to pass cheques upto a specified amount, is provided with customers' accounts in the form of loose cards and a set of specimen signatures. When a cheque is presented, he scrutinises it, compares the signature of the drawer with that held on record, posts it in the concerned account card and pays the amount to the presenter out of the cash provided to him at the start of the day. The paid cheques duly recorded in a long book are passed on by the teller to the ledger section, at suitable intervals during the day, for posting in the ledgers. In order that the teller's cards indicate correct balances at any time, all debit and credit vouchers are, in the first instance, posted in them by the teller. These entries are subsequently made in the ledger by the ledger keeper. At the end of the day both the teller and the ledger keeper extract separately, with the help of machines, opening and closing balances of all the operated accounts and reconcile them. The amount of cash received by the teller in the morning from the cash department is accounted for to the latter in the evening.

(iii) The teller is provided with a ledgerwise list of accounts containing names of depositors, their account numbers and specimen signature card numbers. He is authorised to receive cash and make payments upto limited amounts, without reference to the ledger balances or the specimen signatures as he is expected to be thoroughly conversant with the type of accounts allotted to him and the specimen signatures of the relative depositors. Only in cases of doubt, he gets the balance or the signature verified by the ledger keeper and the supervising official, who are seated near him. The paid cheques and receipts are listed separately by him and the lists along with the vouchers are handed over to the departments concerned for further action. Reasonable amount of cash is provided to him, which he accounts for in the evening.

The question of adoption of the teller system by banks was considered at the workshop on 'Customer Service' organised by the National Institute of Bank Management. After taking into consideration the conclusions arrived at the workshop, we recommend that the teller system should be adopted in all banks at all important branches for encashment of cheques and receipt of cash for credit to accounts. Banks may use their discretion as regards the type of the teller system, the nature of accounts to which it should be made applicable as well as in regard to the maximum limit for receipt and payment of cash under the system. The Group hopes that after the banks get experience and confidence, it would be possible for them to extend the operation of the teller system to a larger number of branches. In the meantime, the customer service can be improved at branches where the teller system is not in operation and where it is not proposed to be introduced immediately by making procedural improvements. The Group's recommendations in this regard are given in the succeeding paragraph.

SIMPLIFICATION OF PROCEDURES FOR PASSING OF CHEQUES

3.3 One of the contributory factors for the delay in attending to customers' business is the practice of routing a transaction through a number of officials. There is no uniformity in banks regarding the delegation of authority for passing cheques, etc., to the first line supervisors. In some of the banks cheques upto Rs. 1,000 are passed by the first line supervisors, while in certain others cheques upto Rs. 10,000 are allowed to be passed by them. Although the delegation of authority would depend upon such factors as the size of a bank, experience of its officials and nature and volume of transactions at a particular branch, as a general rule, we recommend that the first line supervisors should be permitted to pass cheques for payment in cash upto at least Rs. 5,000. Ledger keepers should also be given powers to pass cheques for small amounts depending upon the size of the branch and the experience of the concerned staff. They should also be entrusted with authority to issue cheque books against production of requisition slips to the depositors who call at the bank personally.

The delays in making payment of cheques can also be reduced by improving the office lay out so as to ensure smooth flow of papers and reducing the dependence on peons and messengers for moving them. Further, whenever necessary, supervising officers should go to ledger keepers for passing cheques instead of waiting for the papers, ledgers or registers to be brought to them by messengers.

NUMERICAL SYSTEM OF MAINTAINING LEDGER ACCOUNTS

3.4 The present system of maintaining accounts of depositors in the ledgers in an alphabetical order causes difficulty in distinguishing the accounts particularly when the names of two or more parties are similar. We, therefore, recommend that the system of maintaining accounts in an alphabetical order should be replaced by a numerical system under which the accounts would be maintained in the ledgers on the basis of serial numbers. To facilitate location of accounts, card indices should be maintained both in alphabetical as well as numerical order by arranging one set of cards alphabetically and the other according to numbers and, where necessary, rotating equipment should be used for tracing the accounts. It should also be ensured that the account number is inscribed on all the cheque leaves before the cheque books are issued. The number allotted to each account holder may be so devised as to indicate some information about him, e.g., profession, constitution (individual, firm, company), etc., by adding suitable prefix to his account number. The numerical system will also be more amenable to mechanisation.

MECHANISATION

3.5 Banks in several developed countries have adopted mechanised accounting system by largely replacing the manual accounting system and

this has resulted in quicker and better service to customers. In India, though some of the Indian commercial banks have started using machines for ledger posting, etc., the process of mechanisation is still in a nascent stage. Mechanisation is capable of handling increased volume of work in a shorter period of time and with greater accuracy and neatness. It can reduce a number of tedious, routine accounting jobs and decrease the overall operating costs. Use of machines can save the members of the staff the drudgery of adding columns and columns of figures, particularly as they are required to do this at the end of a day when they are not expected to be at the top of their efficiency. As the machines enable banks to achieve a high degree of accuracy, mistakes in the internal accounting as well as in statements of account, etc., sent to customers are eliminated. The time element is also very important in banks both from the point of view of customer satisfaction and overall efficiency. Books of account have to be balanced daily in order to avoid possibilities of mistakes and even of frauds. Statements have to be sent to head office in time and compiled and analysed quickly in order to enable the top management to review the position of the bank from time to time and plan a strategy for future action. In fact, the time element in banks is not only relevant to their own working and to the satisfaction of customers but also to the rest of the economy.

Adding/listing and accounting machines are already in use in most of the banks, especially at larger offices. For expediting customer services, more use can be made of tellers' machine, savings bank machine, ledger posting machine and cheque sorting machine. The first three types of machines will be useful in the Deposit Accounts Department for recording cash, clearing and transfer entries separately, posting ledgers and simultaneously preparing statements of account and pass books, while the fourth type of machine will be useful in the clearing department. These machines will eliminate writing of supplementaries.

For achieving the three main tasks before the banking industry in the country, *viz.*, deposit mobilisation, credit administration and branch expansion in rural areas, it will be necessary for banks to have proper systems for collection and analysis of data, for financial analysis and for portfolio selection. For this purpose, it has become imperative for banks to instal mechanised data processing systems. The computers are costly but banks can hire them on time or job basis or join together and purchase them. It is, however, necessary that each bank should devise a system of data processing to serve both the operational requirements and the requirements in respect of economic information of the bank itself as also of the Reserve Bank and the Government.

We realise that banks may experience certain difficulties in the immediate introduction of mechanisation arising from the human factor, cost and non-availability of the requisite machines, etc. We, therefore, recommend

that mechanisation should be introduced by banks, especially at larger branches, by adopting a phased programme on a planned basis and by taking the employees' unions into confidence. This will enable the staff doing work involving a lot of drudgery to do work of a higher order and enable their abilities to be used for more fruitful purpose. The Government on its part should also take positive steps to help the banks in getting over the difficulties such as non-availability of machines and opposition, if any, of the staff. It is, however, necessary that banks should exercise adequate care and take concerted action while buying machines to avoid their underutilisation and their becoming obsolete due to change in procedures and other reasons ; only such machines as would do standard and optimum work should be selected. There should also be a continuous review of the machine requirements at different offices which would be of different sizes. Banks should endeavour to go on to the modern comprehensive types of machines as quickly as possible. Indigenous manufacturers should also be encouraged to produce machines to suit the requirements of Indian banking.

STATEMENTS OF ACCOUNT AND PASS BOOKS

3.6 According to the practice generally followed by banks, savings bank depositors, including those who have been allowed the facility of withdrawal by cheques, are issued pass books, while current account depositors are supplied statements of account. In the case of cheque operated savings bank accounts, the depositors have no obligation to present the pass book at the time of each withdrawal or deposit, with the result that the posting in pass books remains in arrears for long periods. When the pass books are presented by the customers for being brought up-to-date after long intervals, considerable amount of work has to be put in by the bank's staff. We, therefore, recommend that the issue of pass books should be discontinued in respect of savings bank account holders who are allowed to make withdrawals by cheques and instead statements of account should be supplied to them, say at bimonthly intervals. Further, the banks which still issue pass books to current account depositors, should switch over to the system of furnishing statements of account.

BALANCE CONFIRMATION LETTERS

3.7 Banks have generally been following the practice of sending balance confirmation letters to their current account depositors/savings bank depositors (who are allowed operation by cheques) at yearly/half-yearly intervals. However, only a small percentage of depositors, in actual practice, return the confirmation letters duly signed by them. It also appears that confirmation of his balance by a depositor does not preclude him from establishing his claim in a Court of Law if he detects an unauthorised debit passed by the bank in his account. The fact that the depositor signed the confirmation without pointing out the discrepancy in the balance to the bank, would only be one

of the contributory factors for proving negligence on his part. Considerable labour is involved in the preparation and despatch of the balance confirmation letters and in the verification of the depositors' signatures when they are received back duly signed. We, therefore, recommend that the practice of obtaining them be discontinued. As recommended by us in the preceding paragraph, statements of account should be furnished to the depositors instead of pass books. The statements should contain a stipulation that the items and the balances shown therein should be verified by the concerned depositor and the bank notified of any discrepancy within a specified time, failing which the last balance shown would be presumed as correct. The statements of account will thus serve the purpose for which the balance confirmations are obtained.

Confirmations should, however, continue to be obtained in respect of accounts showing debit balances. Further, even in regard to accounts with credit balances, the branch agent should be allowed discretion to obtain confirmations in particular accounts where he considers them necessary in the light of his personal knowledge about the depositors and operations in their accounts.

In order to keep a psychological check on the members of the staff against commission of frauds by making unauthorised debits in depositors' accounts, the Internal Auditor, at the time of audit of the branch, should be required to request a few depositors, selected at random, to confirm their balances and send the confirmations direct to him.

PRINTING OF CROSSING ON CHEQUES

3.8 In a number of cases crossed cheques are intercepted in transit, crossings are removed with the help of chemicals and payments are received by wrongful persons by presenting them at the counter. In order to minimise the incidence of such frauds, we recommend that banks should issue cheque books with crossing printed thereon to the customers who require them. Such customers should be provided with two cheque books simultaneously—a crossed one and an open one—printed in different colours for easy identification. A similar system should be followed in respect of bank drafts. Instructions may also be printed on the cover of crossed cheque book that in case cash payment is desired, the drawer should write the words "crossing cancelled" on the cheque authenticated by his full signature.

PAYMENT OF INTEREST ON FIXED DEPOSITS

3.9 The practice generally followed by banks in regard to payment of interest on fixed deposits at the end of each calendar half-year, *i.e.*, June and December, entails considerable amount of work relating to its calculation and payment at a time when the banks are also otherwise busy with the closing

of accounts. With a view to spreading the pressure of work evenly, we recommend that banks may consider the feasibility of making payment of interest on the expiry of every six months from the date of deposit. This change in the procedure may also be beneficial to customers who depend for their living upon interest as they can plan their fixed deposits with banks in such a way as to ensure a regular monthly income of interest for themselves.

ACCRUED INTEREST ON DEPOSITS

3.10 In order to arrive at an approximate figure of profit every month, banks generally calculate the accrued income and expenses, including the interest accrued on various types of deposits, and make provision therefor. Keeping in view the purpose for which the accrued interest is calculated, we recommend that intricate and detailed calculations may not be resorted to for arriving at the exact amount of interest payable on various types of deposits. An approximate provision may be made on the basis of the average rate of interest paid during the previous half-year applied on the daily balances in the General Ledger.

LETTER OF INDEMNITY FOR VERNACULAR SIGNATURES

3.11 Certain banks follow the practice of obtaining indemnity letters from account holders who sign in vernacular. Some of them also have the vernacular signatures transcribed and attested by the Head Cashier or an officer. As banks are spreading to rural areas, where a large number of customers who are not conversant with English will be maintaining accounts, these practices are likely to prove irksome. We, therefore, recommend that banks should take expeditious steps to encourage the members of the staff and officers to learn local languages and for dispensing with the practice of obtaining letters of indemnity for vernacular signatures of the depositors and of transcribing and attesting such signatures.

PHOTOGRAPHS OF ILLITERATE DEPOSITORS

3.12 Illiterate depositors who are allowed by banks the facility to open accounts with them are required to furnish identification each time they visit the bank's office to make a withdrawal. With a view to avoiding the inconvenience caused to the depositors by this procedure, we recommend that banks should make arrangements for taking and keeping on record photographs of illiterate depositors for facilitating their identification. The branches at places where the facility for obtaining photographs is not available, should be provided with cameras and the branch officials given some training in taking photographs ; developing and printing can be got done at nearby centres where such facilities are available.

BALANCING OF CURRENT ACCOUNT LEDGERS

3.13 A number of banks have switched over from the practice of weekly balancing of current account ledgers to fortnightly or monthly balancing. Some of the banks are, however, still following the system of balancing the ledgers every week. In view of the large increase in number of accounts during the recent years, the weekly balancing work, which entails considerable labour, remains in arrears over long periods. We, therefore, recommend that banks may adopt the system of balancing the current account ledgers at monthly intervals.

It is also observed that the work of balancing the summations every half-year remains in arrears and some of the banks have, therefore, dispensed with the balancing of summations. We recommend that while summations should be worked out on ledger folios in order to verify the correctness of the balance in the account, their periodical balancing may be dispensed with.



CHAPTER 4

CLEARING

EXTENTION OF CLEARING HOUSE FACILITIES

4.1 In view of the increase in the number of bank offices and the volume of the business of banks, it has become necessary to provide facilities for clearing of local cheques and other instruments at a larger number of centres. A wider network of bank clearing houses throughout the country is vital for expansion and extension of banking facilities. During the last decade, there has been some expansion in clearing house facilities, as the number of clearing houses functioning in the country which was only 59 as on the 31st March, 1961 has progressively increased to 105 as on the 30th June, 1970. Of these, 9 were managed by the Reserve Bank of India, 78 by the State Bank of India and 18 by the subsidiaries of the State Bank of India.* There are, however, still over one hundred banked places with population exceeding 50,000 which do not have clearing house facilities.

The number of instruments passing through the clearing houses in metropolitan cities has also considerably increased as will be seen from the table** below :—

(Amount in crores of Rupees)
(Number in lakhs)

Name of place	1961		1968	
	Number	Amount	Number	Amount
Calcutta ..	104.61	4219.84	122.59	6190.44
Bombay ..	199.39	4812.48	294.22	9724.16
Madras ..	51.81	690.13	75.09	1626.72
New Delhi ..	27.38	608.24	54.04	1957.42

According to the article on 'Cheque Clearances and Bank Debits, 1951-68—Some Interesting Features'@ by Shri V. G. Pendharkar, Execu-

* *Source* : Annual Report on the working of the Reserve Bank of India and Trend and Progress of Banking in India for the year ended June 30, 1970.

** *Source* : Statistical Tables relating to Banks in India.

@ *Source* : Economic and Political Weekly of February 14, 1970.

tive Director of the Reserve Bank of India and Member-Secretary of the Banking Commission, the annual percentage rate of increase in the number of cheques cleared through the clearing houses appears to have been extremely stable and works out to 7.45 per cent per year. The article also suggests that there seems to be a co-relationship between the growth in the number of cheque clearings and pace of development of the country. It is, therefore, obvious that, with the growth of banking habit and banking facilities as well as the economic development of the country as envisaged by the Five-Year Plans, the cheque clearances will considerably increase in the coming years.

Further, several banks have opened a large number of offices in different localities of metropolitan cities and the clearing instruments are routed by them through their main offices. For example, as at the end of September 1970, Dena Bank, Bank of India, Central Bank of India and Bank of Baroda had 51, 48, 41 and 43 offices respectively at Bombay, Punjab National Bank had 54 offices at Delhi, United Bank of India had 44 offices at Calcutta while Indian Bank had 32 offices at Madras.* As a result, the clearing departments of banks in metropolitan cities are experiencing severe strains.

The problems relating to clearing and the question of evolving a solution to them were considered in the workshop on customer service organised by the National Institute of Bank Management. After taking the conclusions arrived at the workshop into consideration, we recommend that the feasibility of opening clearing houses at places with population of more than 50,000 which are served by more than 3 or 4 banks should be examined keeping in view the factors such as the expenses involved, the problem of space and personnel, the number of bank accounts and the average number of instruments that would pass through clearing. The State Bank of India should take a lead in the matter as it or its subsidiaries manage the clearing houses at places where the Reserve Bank of India has no office. At centres where the State Bank of India is not established but other banks or their customers feel a need for establishment of a clearing house, the initiative should be taken by the banks themselves, preferably by the lead bank. In order to reduce the workload on the clearing houses and main offices of banks in metropolitan cities and with a view to ensuring quicker clearance of cheques, the feasibility of opening sub-clearing houses should be expeditiously considered by the Indian Banks' Association. The location of sub-clearing houses should depend upon the concentration of branches, the communication facilities and the volume and pattern of payment flows. We understand that a beginning in this regard has been made by the Association which has started collecting data in respect of cheque clearance in North Bombay, but more concerted efforts are called for in view of the necessity of finding out an urgent solution to the problem. The opening of sub-clearing houses is expected to result in quicker realisation of proceeds and also in reduction of the strain on the clearing departments of banks.

* Source : Supplement to Reserve Bank of India Bulletin of November, 1970.

Some of the banks having a large number of offices in metropolitan cities have successfully introduced a system of 'home' clearing of cheques and other instruments. We recommend that the banks which have not so far started this practice should do so, so that cheques tendered by an account holder for credit of his account and drawn on another local branch of the same bank are realised expeditiously.

RELAXATION OF CLEARING HOUSE RULES

4.2 The non-scheduled banks are not at present admitted as members of clearing houses. As all banking companies in the country are subject to the supervision and control of the Reserve Bank of India under the Banking Regulation Act, 1949 and have also the benefit of the cover provided by the Deposit Insurance Corporation, the rationale of making a distinction between a scheduled and a non-scheduled bank has lost a good deal of its validity. The apex, central and urban co-operative banks have also come within the purview of the Banking Regulation Act. In view of this and the proposal to extend the clearing house facilities to comparatively smaller centres where non-scheduled banks and co-operative banks would be handling considerable banking business, we recommend that the question of admitting them as full-fledged members of clearing houses as also liberalising the clearing house rules regarding the number of instruments and banks, the terms and conditions of membership, etc., should be examined by the Reserve Bank of India and the State Bank of India.

SIMPLIFICATION OF CLEARING HOUSE PROCEDURES

4.3 The Indian Banks' Association has appointed a sub-committee on clearing which, *inter alia*, is considering the desirability of dispensing with the Outward Clearing Register and abolition or change in timings of special clearing. The measures relating to the simplification of clearing procedures are being considered by the Association with particular reference to the city of Bombay. We recommend that the special problems relating to the clearing of cheques in other large centres should also receive similar attention.

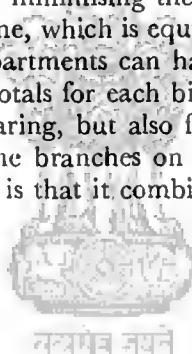
According to the practice at present followed by banks clearing cheques received on the counter are entered in the Outward Clearing Register before they are listed and sent to the clearing house. The purpose of the register is to trace the returned cheques, if any, to the appropriate accounts in which they are deposited and to tally the clearing. This purpose would be achieved if the details now entered in the register are noted by the customers on the reverse of the pay-in-slip and checked by the banks' staff. We, therefore, endorse the suggestion under consideration of the Indian Banks' Association that steps should be taken to gradually discontinue the Outward Clearing Register. The abolition of the register would considerably relieve the strain on the clearing departments of banks. Further, if the cheques and pay-in-

slips are appropriately numbered and if the numbers of the accounts to which credits are being given are recorded on the reverse of the cheques, tracing of credits and debits and matching them at a later stage would be facilitated.

One of the banks has introduced a system of 'Flying Squad' in metropolitan cities. Officials attached to the main office of the bank go round the other branches in the city for collecting the cheques for the day's clearing which obviates the necessity of each branch sending a representative to the main office for the purpose. We recommend that the feasibility of adopting this practice may be considered by banks having a large number of branches in big cities.

USE OF CHEQUE SORTING MACHINES

4.4 We have already made certain suggestions for relieving the strain on the clearing departments in metropolitan cities. We further feel that use of cheque sorting machines at major branches of banks would be helpful in expediting clearing work and minimising the occurrence of clearing differences. By the use of this machine, which is equipped with a specified number of sorting bins, the clearing departments can have all the cheques sorted out and, at the same time, get the totals for each bin. The machine can thus be useful not only for outward clearing, but also for inward clearing for sorting out the cheques according to the branches on which they are drawn. The main advantage of the machine is that it combines several manual operations into one machine operation.



CHAPTER 5

COLLECTION OF OUTSTATION CHEQUES, BILLS AND OTHER INSTRUMENTS

5.1 The Banking Commission had requested commercial banks in India to indicate the various services in regard to which complaints are received most frequently and to list them in order of frequency. The replies received from banks show that most frequent complaints are in regard to the delay in collection of outstation cheques and bills or prompt return thereof in case of non-payment. By another question, banks were asked to indicate the factors which, in their opinion, cause these delays. The main reasons for the delays mentioned by banks can be classified into three categories, *viz.*, (i) postal inefficiency, (ii) defective procedures followed by banks, and (iii) inefficient working of departments handling bills and receipt and despatch of dak. The workshop on Customer Service organised by the National Institute of Bank Management was also of the view that outstation cheques take a long time for collection, average time being 15 to 18 days. There is thus an urgent need to take steps for eliminating the causes of delay. We, therefore, suggest the adoption of the following measures for reducing the time taken for collection.

COURIER SYSTEM

5.2 In order to avoid transit delays, the Indian Banks' Association is considering the possibility of transmitting outstation cheques, bills, etc., on behalf of member banks from one centre to another by night air mail. According to the scheme under its consideration, the main offices of banks at the five night air mail cities (Bombay, Calcutta, Delhi, Madras and Nagpur) would be required to collect from local branches outstation clearing and non-clearing instruments, other valuable documents and remittance advices intended for the other night air mail centres. The instruments and other papers so collected would be placed in sealed packets addressed to the main offices of banks at the outstation centres. These packets would be handed over to the offices of the Indian Banks' Association at each of the cities. The Association officials would sort out the packets centrewise and place them in suitable steel boxes which would be properly locked, sealed and labelled. The boxes would be delivered at the air ports under special arrangements with the Indian Airlines and carried by the night air mail service. The documents in transit would be covered by a transit insurance policy and the concerned staff of the Association would be covered by fidelity insurance.

policy. At the destination, the representatives of the Association would take delivery of the boxes, contents of which would be given to the representatives of the respective banks at the Association's office. As a complementary arrangement, the main offices of member banks would be required to have an efficient system of promptly distributing and receiving such documents to and from their local branches. As this system when brought into effect, would reduce the time involved in transit (particularly in the case of those instruments which are required to be sent by registered post), we recommend that the Indian Banks' Association should take expeditious steps to implement it. Government should also render such help, as may be necessary, in resolving the legal and technical difficulties which the Association might encounter. After the scheme proves successful, the feasibility of extending it to other cities connected by air should be examined by the Association. Alternatively, the Postal Department itself may consider organising a courier system on the lines mentioned above by making appropriate arrangements. It may recover from the banks the costs incurred by it on the basis of an agreed formula.

We further recommend that, in order to avoid inconvenience to customers and as a measure of self-discipline, banks should issue instructions to their branches that the cheques and drafts sent by them to outstation branches for collection, through the courier system, should be considered as realised and proceeds credited to the customers' accounts if they are not returned unpaid or information regarding their dishonour is not received from the collecting branches within seven clear working days. In order to minimise the risk involved, the non-payment advices should be sent through the courier system and in the case of instruments for large amounts non-payment may also be advised by telegram/telex.

Even as regards the cheques and drafts sent for collection to outstation centres which are not covered by the courier system, it is desirable to afford credit to the relative customers' accounts after lapse of specified periods even if the information regarding the fate of the instrument is not received from the collecting branch. It would perhaps be advisable to fix the period on regional basis or by stipulating a uniform maximum period of say 10 clear working days. Our intention in making the above suggestion is that a customer should not be made to suffer for any unreasonable delay on the part of the forwarding or the collecting branch.

We also suggest that banks may progressively adopt the system of purchase/discount of cheques and bills in replacement of the collection system. At large towns where the collection business is sizeable, banks may consider opening 'collection branches' in suitable localities exclusively for this business. Apart from the procedures in the bills department, laxity in handling the inward and outward dak and the human factor are also largely responsible for the delays. Our recommendations in this regard are given in paragraph 5.4.

MANIFOLD SYSTEM FOR COLLECTION OF BILLS AND CHEQUES

5.3 Some of the banks have already adopted the manifold system in regard to their outstation bills business. The detailed working of the system varies from bank to bank although the basic principle is the same. Under this system, requisite number of copies are taken out by use of carbon paper while writing or typing the original. One copy of the manifold which is printed on thick paper is used as a loose leaf Outward Bills Register while the other copies are printed on thin paper and are used for various purposes such as covering schedule, realisation advice, etc. The first copy of the manifold has all the columns visible while in other copies only the relevant columns are visible, the remaining columns being blurred. The manifolds are serially numbered and for this purpose a numbering register with columns of date, bill number, drawer/account and amount is maintained to facilitate reference. In order to ensure safety of records, the register copies of the manifold at the end of the working hours are filed in a special binder which always remains in the custody of an officer during business hours and in the safe overnight. The official initials the register copies only after they have been filed in the binder. The manifold system can also be suitably adopted for bills purchased and sent for realisation, cheques sent for collection, as also for inward bills. We recommend that the banks which have not so far introduced the manifold system should adopt it. As an illustration, one of the manifold systems is described in Annexure V.

RECEIPT AND DESPATCH OF BILLS

5.4 One of the causes of delay in realisation of bills is the time taken by the Despatch Department in despatching the bills/cheques to the concerned branches/banks and that by the Dak Receipt Department in passing on the inward instruments to the Bills Department. In order to minimise this delay, the Despatch Department should work, where necessary, on a shift basis so that covering schedules of bills, realisation advices, etc., which are ready for despatch in the afternoon can be sorted out and sent in the evening on the same day. The documents to be sent by registered post should be positively despatched at least on the next day. Branches doing sizeable business, should use addressograph, auto-weigh and franking machines in order to save labour and time involved in manual work. The particulars of inward bills, cheques, etc., received for collection need not be entered in the Dak Receipt Register. After the covering schedules and the attached documents are sorted by the official receiving the dak, they should be handed over against acknowledgement to the official of the Bills Department/Deposit Accounts Department by entering their total number in a pass book. A record of the bills will be maintained in the numbering register referred to in the paragraph on manifold system.

Apart from the above measures, the toning up of the Bills and Despatch Departments so as to eliminate the errors in preparing covering schedules,

realisation advices, writing the addresses, etc., will go a long way in minimising complaints and rendering expeditious and satisfactory service to customers.

PASSING OF CONTRA ENTRIES IN RESPECT OF OUTWARD AND INWARD BILLS

5.5 Some of the banks maintain contra headings in their General Ledger and entries are passed daily for the total amount of the bills received for collection and those realised. Outstanding bills are extracted in a balance book and their total amount is checked with the General Ledger balance at periodical intervals. The accounting of the bills for collection in the General Ledger thus serves the purpose of exercising a control through periodical balancing of the outstanding bills. However, this control can also be exercised by either keeping the outstanding bills in the joint custody of two officers or by maintaining a record of bills independent of the Bills Department. The work involved in totalling the amounts of bills daily for the purpose of passing the contra entries and balancing the total amount of outstanding bills with the General Ledger balance at periodical intervals entails considerable labour without commensurate benefits. We, therefore, suggest that the practice of passing contra entries daily in the books may be discontinued. For the purpose of dual control, the numbering register referred to in paragraph 5.3 may be maintained by a department other than the Bills Department and the outstanding bills may be checked from the folder copies of the manifold with the numbering register at monthly intervals. At the year end, the amounts of all outstanding outward bills and such of the inward bills as are received for collection from other banks and directly from parties may be totalled and shown in the balance sheet under the prescribed contra heads.

महाराष्ट्र बऱ्ह

CHAPTER 6

REMITTANCES

6.1 The various instruments for transfer of funds through banks are drafts, mail transfers, telegraphic transfers and travellers' cheques, of which drafts are by far the most popular. The delays involved in mail transfers are mostly due to the negligence in promptly and correctly preparing and despatching the relative advices, while those in respect of telegraphic transfers are caused by mutilation of the messages in the course of transmission through the post office or their late delivery. Though the travellers' cheques have not as yet become popular in India, the procedures for their issue and payment are quite simple. The Group, therefore, concentrated its efforts on suggesting improvements in procedures relating to the issue and payment of drafts.

PROCEDURE RELATING TO ISSUE OF DRAFTS

6.2 According to the procedure generally followed by banks for the issue of drafts, the remitter presents the draft application form to the dealing clerk who verifies it and adds the amount of commission under his initials. The remitter thereafter makes payment at the cash counter. The cashier after receiving the amount affixes the receipt stamp under his initials and passes on the application form to the supervisory official. This officer issues a blank draft form to the clerk after indicating its number on the application. The dealing clerk prepares the draft, along with an advice to the concerned branch and a remittance schedule, and makes an entry in the drafts issued register. The draft, the relative advice and the remittance schedule, together with the drafts issued register, are sent to the supervisor for checking and signature. Normally, the drafts are signed jointly by two officers, though some of the banks have delegated powers to different categories of officers to sign drafts singly upto specified limits.

DELEGATION OF AUTHORITY TO SIGN DRAFTS

6.3 The procedure requiring joint signatures on drafts even for small amounts entails delay in their issue and consequent inconvenience to the customers. We, therefore, recommend that the first line supervisors, who are normally promoted to that position after adequate experience in the capacity of a clerk or a trainee officer, should be allowed to sign drafts singly at least upto Rs. 5,000.

USE OF MANIFOLD DRAFT APPLICATION FORM

6.4 We also recommend that the draft requisition form should be printed on manifold sheets and should have a carbon attached. When the

form is presented by the customer to the dealing clerk for scrutiny, the latter should indicate in it the amount of the commission charged. One copy of the manifold should be retained by the clerk and the other passed on to the cashier for receiving cash. With the help of the copy of requisition form with him, the dealing clerk should immediately prepare the draft, make an entry in the draft issued register and send them to the supervisor for signature. The supervisor should sign the draft as soon as the received copy of the requisition form has been received by him and release the signed draft. While delivering the draft to the customer, the copy of the draft application form, which was used by the dealing clerk for preparation of the draft, should also be handed over to him to serve as a cost memo. The preparation of the draft advice and the remittance schedule should be attended to after the public business hours. The supervisor in custody of blank draft forms should, in order to facilitate this procedure, hand over a few blank draft forms to the dealing clerk every morning and take back the unused forms in the evening for overnight custody after verifying that the forms have been properly used. The change in procedure as indicated above is expected to reduce the waiting time of the customers. There can be a possibility of the customer filling in the requisition form and not tendering the cash, but such cases are expected to be few and far between and would only involve destruction of a few draft leaves.

PAYMENT OF DRAFTS—IDENTIFICATION OF THE PAYEE

6.5 The insistence on the identification of the payee even in respect of the drafts for small amounts acts as a deterrent in making drafts a convenient mode of remittance. Sub-section (1) of section 85 of the Negotiable Instruments Act states that "where a cheque payable to order purports to be indorsed by or on behalf of the payee, the drawee is discharged by payment in due course". 'Payment in due course' has been defined in section 10 of the above Act as "payment in accordance with the apparent tenor of the instrument in good faith and without negligence to any person in possession thereof under circumstances which do not afford a reasonable ground for believing that he is not entitled to receive payment of the amount therein mentioned." In view of the above provisions, banks generally insist upon identification of the payee before making payment of order cheques or drafts. On a careful consideration, we are of the view that in order to popularise the drafts as a mode of remittances and also to inculcate the cheque habit amongst the public, it is necessary to dispense with the formality of identification in respect of instruments for small amounts, except in cases where there are reasonable grounds to suspect that the presenter is not entitled to receive payment. We, therefore, suggest that the legal aspects of the question should be examined carefully and the provisions of law suitably amended, if necessary.

INTER-BANK COLLECTION AND TRANSFER SYSTEM

6.6 The inter-bank transactions relating to the drawing of drafts, collection of bills and encashment of travellers' cheques are governed by the

reciprocal arrangements entered into by various banks with each other. The terms of these arrangements differ widely. The question of bringing about uniformity in this regard has been examined by a Study Group appointed by the Co-ordination Committee of the public sector banks. It is understood that the suggestions made by the Group which, *inter alia*, relate to simplification of procedures relating to inter-bank drawings and inter-bank collections and encashment of travellers' cheques are under consideration of the Co-ordination Committee. We suggest that such of the non-nationalised banks as are willing to participate in the scheme, when finalised, may be permitted to do so to the extent possible.

INTRODUCTION OF GIRO SYSTEM IN INDIA

6.7 The inter-bank arrangements for drawing of drafts will no doubt facilitate remittances, but from a long-term point of view the question of introducing a Giro system, which provides transfer of funds from one account to another without the use of cheques, deserves consideration.

Postal Giro which was originally introduced in Austria as early as in 1883 has been popular in several West European countries as well as in certain countries in Asia. It was recently introduced in U.K. in October 1968. In most of the European countries, where it has proved to be a success, every transfer or payment by cheque attracts stamp duty and the Giro, therefore, has the advantage of providing a comparatively cheap mode of effecting transfer of funds and making payments. It has found favour in these countries with small businessmen and wage earners whom the commercial banks had never tried to court since the accounts of such persons were considered by them as a liability. Conditions in India, however, are different. Small depositors are welcomed by the commercial banks which maintain savings bank accounts with liberal rules for acceptance and payment of money and also allow operations by cheques which are not subject to stamp duty in India as in the European countries. They allow deposits into and withdrawal of funds from the accounts free of charge for which some of the postal Giros in foreign countries levy charges. They also provide the facility of collection of cheques to savings bank account holders who have been properly introduced. The introduction of postal Giro will not, therefore, be of much special advantage in Indian conditions. It would be preferable to graft the principle of Giro on to the banking system by creating a mechanised centre for settlement of transactions between the banks relating to transfer of funds from one account to another and issue of inter-bank drafts and travellers' cheques.

The next question that requires consideration is whether such a Giro system should cover the entire country or a beginning should initially be made in the metropolitan cities. Considering the vast expanse of the country, a full-fledged Giro system may not be workable at present. An independent

agency with the collaboration of banks may instead be created, embodying the principles of Giro, to clear the transactions relating to transfer of funds within the metropolitan cities of Bombay, Calcutta, Delhi and Madras and in between these cities in the first instance. It may be possible to work such an agency without full-fledged computerisation, which would involve heavy capital outlay, by adopting intermediate technology. The proposed bank Giro will not perform all the functions which a postal Giro is expected to do but will, more or less, assume the form of a sophisticated credit clearing system. Its offices at the metropolitan cities will clear the credit transactions within the cities. The transactions in between any two cities will be cleared by the Giro centre at the payee's end.

Apart from the transfer of funds from one bank account to another, the bank Giro may also undertake to clear transactions of the following nature :—

- (i) Remittance of funds, paid in cash, through a branch of a bank by a non-account holder to an account holder in another bank in the same city or another metropolitan city.
- (ii) Remittance of funds by an account holder through his bank to a non-account holder through another bank in the same city or another metropolitan city by issue of a pay order.
- (iii) The Giro may also issue travellers' cheques and drafts for payment to the beneficiaries by branches of the collaborating banks.

The proposed bank Giro will have several advantages. The transfer of funds will be prompt as a mechanised accounting system will process these transactions. The collection of bills by the public utility concerns and other establishments which cater to the needs of a large number of consumers will be facilitated. Pressure on the clearing houses would be considerably less as the use of cheques for settlement of transactions will be reduced. Similarly, the volume of cheque collections in between the metropolitan cities will also be considerably reduced. It may also be possible that the mail order business, which has not adequately developed in India, may get a fillip by facilitating transfer of funds from one centre to another. The bank Giro may also be able to reduce the charges levied at present by the banks for remittance of funds as also to make transfer of funds between one account and another free, as the mechanised and centralised accounting system is expected to reduce the clerical labour and consequently the cost. A paper on the 'Introduction of Giro System in India', which was presented to the Study Group, is reproduced in Annexure VI.

CHAPTER 7

ADVANCES—GENERAL

7.1 The procedures relating to advances of the traditional type, *i.e.*, to medium and large scale industries and traders, are well established and, by and large, are found to be satisfactory. This view is confirmed by the replies received to the questionnaire, issued by the Banking Commission, to elicit information regarding the various difficulties experienced by the medium and large scale industries in obtaining financial accommodation from or in their dealings with the commercial banks. The difficulties faced by these units, as expressed in their replies, relate mostly to policy matters or to specific grievances of individual borrowers which are capable of being rectified by mutual discussion between them and the bank managements rather than to the general procedures. The Group, therefore, concentrated its efforts on suggesting improvements in regard to the procedures for grant of advances to priority sectors which form a comparatively new facet of the working of commercial banks. Suggestions which are of a general nature have been incorporated in this chapter while those specifically pertaining to different priority sector advances have been included in the next four chapters numbers 8 to 11.

Decentralisation of the organisational structure and liberalisation of delegation of powers play an important role in the simplification of procedures for grant and supervision of credit. The Group has, therefore, expressed its views on these matters though they strictly relate to 'Bank Organisation and Management' rather than to 'Bank Procedures'.

CREATION OF REGIONAL OFFICES, THEIR FUNCTIONS, DUTIES AND RESPONSIBILITIES

7.2 Banks have in recent years embarked on a large expansion of their activities in regard to both geographical as well as functional coverage. Location of offices far away from the head office has given rise to difficulties in regard to supervision and control and communication of decisions and instructions. Further, as banks have entered into new fields of specialised financing, closer contact between the decision making and implementing authorities has become essential. In order to expedite decision making and to exercise effective supervision and control over the working of the branches, we recommend that regional offices should be created or reorganised by banks. We further suggest that the following aspects should be borne in mind in this regard :—

(i) The number of branches under the jurisdiction of a regional office in the mofussil may be 25 to 50 depending upon communication

facilities, nature and volume of business conducted, contemplated expansion in the network of branches, etc. In the metropolitan areas it may be possible for a regional office to handle a larger number of branches. The region should comprise a contiguous area, no branch being very far away from the regional office.

(ii) To ensure that regional offices do not become one more tier in the administrative set up, they should be granted adequate powers not only for sanction of advances but also in regard to administrative matters. They should be placed under the charge of experienced and capable senior officers.

(iii) Normally there should not be an intermediate tier between the regional office and the head office. However, banks having a very large number of branches may have to create/retain local head offices with adequate powers for administrative convenience.

(iv) While policy matters relating to the bank's business have to be decided at the head office in order to ensure uniformity, the bulk of the decisions relating to operative functions should be entrusted to the regional offices. Their functions would, *inter alia*, include :

- (a) sanction of the bulk of the advance proposals in excess of the powers of the branch agents, particularly in respect of advances to priority sectors ;
- (b) maintenance of specialised cells on functional basis with adequate trained staff for assessment of advance proposals from priority sectors and for supervision and review of advances granted to them ;
- (c) conducting of surveys, research and pilot projects for developmental activities in respect of deposit mobilisation, geographical expansion and grant of credit to priority sectors ;
- (d) maintaining a close contact with the branches and serving as a vehicle of communication between the head office and the branches ;
- (e) review of the working of the branches in the region periodically ;
- (f) collection and compilation of statistics relating to all facets of working of the branches in the region.

(v) The regional manager should not be overburdened with routine work so that he may be able to discharge his supervisory functions effectively as also to pay visits to the branches under his charge at least once in a quarter.

By creation of the regional offices and entrusting them with specific functions, not only the procedural delays in taking decisions on various day-to-day operational matters would be minimised, but the congestion of work at the head office due to paucity of space, difficulties in compilation and consolidation of statistical and other information, strain on communication system, etc.,

would also be eased to a great extent. Besides, the top and middle level managements at the head office will get more time to attend to matters relating to policy. The head office should, however, arrange to carry out periodically thorough inspections of the regional offices in order to ensure that they are discharging their functions effectively and efficiently.

DELEGATION OF DISCRETIONARY POWERS TO SANCTION ADVANCES

7.3 While considering the extent to which the powers to sanction advances should be delegated to different officials, a number of factors such as the size of the branch, the type of business handled, the experience of the concerned officials, etc., have to be kept in view. These factors differ from bank to bank widely. We, however, recommend certain general principles which may serve the banks as useful guidelines in this regard.

(i) Powers delegated to branch agents should be adequate to enable them to sanction working capital advances to small borrowers without reference either to the regional offices or the head office. While vesting such powers the head office should, however, prescribe overall ceiling on the total amount of credit that could be advanced at each of the branches to various categories of borrowers, *i.e.*, agriculturists, small scale industries, other small borrowers, etc. This provision is necessary to ensure equitable distribution of credit in relation to the bank's total available resources and in the context of liquidity requirements. Regional offices should have authority to sanction the bulk of the advance proposals emanating from the branches ; only proposals for working capital advances to large scale industries and those for medium-term and long-term advances for sizeable amounts should be referred to the head office.

(ii) Delegation of authority should be reviewed at least once in two to three years and discretionary powers should be varied, if necessary, according to requirements.

(iii) While senior agents are normally posted at important branches, occasions may arise when the powers to sanction advances delegated to agents on the basis of their seniority and/or grade may not be adequate considering the type of business required to be handled by a branch. In such cases, necessary adjustments should be made.

(iv) While considering the grant of wider delegation of powers, particularly at the rural branch agent's level, it has to be borne in mind that, due to rapid expansion of banking during recent years, persons without adequate experience had to be promoted and placed in-charge of branches. Liberalisation of powers has, therefore, to be necessarily accompanied by a system of post-sanction review and scrutiny. In view of this, a quarterly scrutiny of the advances to priority sectors granted by branch agents should be carried out by a set of roving officers attached to the functional cells at regional offices. The scrutiny will bring to light any injudicious action of the branch agent,

within a short time, to enable the regional office to take corrective measures. After some time, when the agents have gained sufficient experience, the frequency of the scrutiny may be suitably reduced.

(v) Branches should be required to maintain a register recording the receipt of loan applications (whether made orally or in writing) and their disposal. The roving officers should examine this register in order to find out whether there has been any undue delay or wrongful refusal of credit facilities.

(vi) While exemplary punishment should be awarded to the agents who are found guilty of deliberate misuse of powers, gross negligence, dishonesty or favouritism in order to curb any tendency to abuse the powers vested in them, the agents should be protected even though an advance becomes difficult of recovery if it was granted in the normal course without *mala fide* intent.

In terms of section 292 of the Companies Act, 1956, the Board of Directors has to specify, while delegating powers to branch managers, etc., the total amount up to which loans may be made by the delegates, the purposes for which the loans may be made and the maximum amount of loan which may be made for each such purpose in individual cases. This provision creates difficulties in smooth functioning since for enhancing discretionary powers once granted to a branch manager, the Board of Directors has to pass a resolution. In the case of banking companies this provision may have to be suitably amended enabling the Board of Directors to authorise the Chief Executive Officer or a Committee of Directors to exercise the powers of the Board in this regard.

APPLICATION FORMS FOR ADVANCES TO SMALL BORROWERS

7.4 The application forms for advances prescribed by some of the banks are quite lengthy and call for detailed information which the small borrowers find it difficult to furnish without assistance. While it is essential for banks to collect adequate information which would enable them to properly assess the creditworthiness of the borrowing concern, its need-based requirements, repaying capacity and the purpose of the advance, we feel it desirable to provide the small borrowers with assistance in filling up the application form by explaining the implications of the various items on which information is required. If the borrower is asked to call at the bank's office for the purpose, it may be difficult for him to bring along all the necessary records. It will, therefore, be preferable if the bank's representative visits him at his place of business. We, accordingly, recommend that the existing application forms in respect of advances to small borrowers may be bifurcated into two parts :—

(i) application form to be filled in and signed by the borrower containing essential information of a simple nature relating to his bio-

data and credit requirements, *i.e.*, name, address, date of establishment, constitution, nature of business, particulars of allied concerns, details of assets and liabilities, net profits earned and taxes paid during the past two years, existing borrowing arrangements and details and purposes of borrowing facilities required, and

(ii) interview form in which additional information such as short history, particulars relating to production, marketing, profitability, repayment sources, inventory, book debts, sundry creditors, accounting and audit systems, etc., may be recorded by the bank's officer.

The procedure to be followed in this regard would be as follows. The applicant for a loan would call at the bank's office when the application form [referred to in (i) above] would be handed over to him for being filled in and furnished to the bank. If after perusing the completed application form submitted by the borrower the proposal is found to be *prima facie* in order, the bank would depute an officer to visit the borrower's place of business. This officer would obtain the requisite information by questioning the borrower and perusing his books of account and other relevant papers and fill in the interview form mentioned in (ii) above. He would also make his assessment regarding the condition of the borrower's business, his creditworthiness and need, on the basis of on-the-spot study, and record his opinion in the space provided in the interview form.

Where it is considered necessary, the information gathered from the borrower regarding his assets and liabilities, past dealings and standing may be verified from independent sources. While the application form may be common for all small advances, separate interview forms may be prescribed for different types of borrowers such as small scale industries, agriculturists, road transport operators, service unit owners, retail traders, etc.

CREDIT REPORTS ON BORROWERS

7.5 According to the practice generally prevalent amongst banks, credit reports are maintained on all borrowers though exceptions are made in respect of persons availing of small advances against readily realisable securities. Compilation and maintenance of credit reports on persons who have been granted clean overdrafts on a temporary basis under the discretionary powers of the branch manager, advances against readily marketable securities whose value is not subject to wide fluctuations and which are also not liable to deteriorate, and loans for small amounts for agricultural production, running small scale industries, repair or service shops, etc., entail labour and cost which is not commensurate with the risk involved in dispensing with the credit reports on such parties. Further, the practice followed by some of the banks requiring their branch agents to furnish to the regional/head office copies of credit reports on borrowers, who have been sanctioned advances by the branch officials in exercise of the discretionary powers vested in them,

does not serve much useful purpose. In several cases, while renewing the credit reports every year, branch officials merely repeat the information contained in the earlier reports and the renewed credit reports do not thus give any additional information. In view of the above position, we recommend that :—

- (a) Detailed credit reports need not be maintained on borrowers who have been sanctioned the following types of advances :—
- (i) temporary overdrafts granted under the discretionary powers of the branch agent ;
- (ii) advances against deposits with the bank and surrender value of life insurance policies ;
- (iii) advances upto Rs. 5 lakhs against Government and other trustee securities ;
- (iv) advances upto Rs. 50,000 against readily marketable shares and debentures ;
- (v) secured advances to agriculturists upto Rs. 10,000, to small scale industries upto Rs. 25,000 and to other small borrowers upto Rs. 10,000.

Banks should, however, ensure that the borrowers are properly introduced and also satisfy themselves regarding the viability of the project, purpose of the advance and need-based requirements before sanctioning the credit limits to them.

- (b) At the time of renewal of an advance, a fresh credit report may be prepared only if there have been any significant changes in the means and standing of the borrower; in other cases a dated remark may merely be recorded on the earlier credit report stating that the information has been verified and the party's position substantially remains unchanged or briefly indicating the minor changes that have occurred. A suitable remark to the same effect should also be made on the renewal proposal sent to the regional/head office. However, a fresh credit report should be prepared at least once in two years.
- (c) Branches should not be required to send copies of credit reports to the head/regional office on borrowers to whom advances have been sanctioned under the agent's discretionary powers.
- (d) The personal liabilities and assets of proprietors and partners of business concerns should be taken into consideration while assessing their creditworthiness.

EXCHANGE OF CREDIT INFORMATION

7.6 Banks in India do not exchange free and frank information regarding the affairs of their customers. They exercise caution while giving such

information to other banks and express their opinions in general terms, making them as brief as possible. The opinions are invariably marked 'Private and confidential' and it is also made clear that the bank giving the opinion accepts no responsibility for the views expressed. In cases where the constituent's position is unsatisfactory, the fact is not advised in clear terms but remarks such as "keeps small account with us but no knowledge of the extent of his means" are conveyed. In countries like U.K. and U.S.A., commercial banks rely to a large extent on the reports and data supplied by the reputed credit investigation agencies. These agencies specialise in collecting and disseminating credit information on individuals, partnerships, corporations, etc. For example, Dunn & Bradstreet, Inc., which is the foremost agency of its kind in U.S.A., in addition to investigating and reporting financial information on specific parties for its subscribers, also edits and publishes the "Dunn & Bradstreet Reference Book" which is widely used by banks for checking the financial strength and credit standing of their customers. The reports of the agency are comprehensive and, besides giving the information relating to the assets and liabilities and past dealings of the subject, indicate the financial strength and composite credit appraisal, expressed by an alphabetical and numerical symbol which aids in classifying its size and credit standing. A specimen* of the agency's credit report is given in Annexure VII.

Under Indian conditions establishment of a private agency of this type would appear to be difficult. It may, however, be possible to establish a Credit Intelligence Bureau in the Public Sector for compiling and furnishing credit information to the various financial institutions in the country. This agency will have to be statutorily armed to collect and disseminate the information to the banks and other financial institutions. It will have to maintain trained and experienced staff to expertly analyse the financial reports, balance sheets and other information collected and to intelligently interpret them. The agency will have to be engaged in constant research and study and maintain dossiers on various parties. It will have to evolve a uniform system of assessing the creditworthiness of parties by preparing a suitable form for the purpose and stipulating guidelines for use by different channels through which the information is collected. It may also have to consider the use of quantitative technique of credit rating, commonly called a "pointing system".** The working of the agency may have to be mechanised to ensure speedy collection and supply of data. For administrative convenience the Bureau may have to confine its operations in the initial stages to bigger cities. The creation of such an agency will save duplication of the labour involved in the maintenance of elaborate credit investigation departments by each bank and also facilitate exchange of credit information.

* *Source:* 'The practical operations and the management of a bank'—by Marshall C. Corns.

** *Source:* For details please see 'Innovations in Bank Management—Selected Readings'—edited by Paul F. Jessup.

The Reserve Bank of India at present maintains a Credit Information Bureau which supplies to banks, at their request, consolidated information regarding the credit limits enjoyed from the banking system by parties having aggregate secured limits of Rs. 5 lakhs and over and unsecured limits of Rs. 1 lakh and over. The Bureau, however, does not collect or disseminate the information about the means and standing of borrowers. We, therefore, recommend that the Reserve Bank of India may examine the feasibility of establishing a Credit Intelligence Bureau for compiling and furnishing credit information to various financial institutions in the country by enlarging the functions of the Credit Information Bureau or by establishing a separate agency for the purpose.

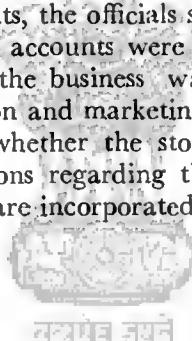
PROPOSALS RECOMMENDING SANCTION OF CREDIT LIMITS

7.7 Advances which are in excess of the discretionary powers of branch agents are referred to head office/regional office by sending the proposal in the prescribed form. In order to enable the regional office or the head office to judge the merits of the request for the grant of credit, the proposal should contain adequate information not only regarding the borrower's means and standing, his stake in business, security, collaterals, guarantee offered, rate of interest and other terms and conditions, but also regarding the purpose of the advance, his need-based requirements, the present state of his business, viability and future prospects. We, therefore, recommend that banks should, where necessary, suitably revise the advance proposal form which should contain adequate information regarding the volume and turnover of the borrower's business, sales and purchases on cash and credit basis, current assets and liabilities, extent of his own resources, seasonal trends and other relevant details justifying his credit requirements from the bank under different facilities. These particulars would enable the head/controlling office to independently judge whether the limits recommended by the branch are excessive, inadequate or correspond to the constituents' genuine requirements. The credit facilities to a borrower should be so arranged that the cycle of business from the purchase of raw materials to the receipt of sale proceeds is not hindered for lack of finance. While assessing the credit requirements of a borrower, the branch agent should, therefore, take into consideration the borrower's requirements for different types of facilities such as those against pledge, hypothecation, bills receivable, trust receipts, unsecured, etc. The head office/regional office should also give discretion, to some extent, to the branch agent to interchange the limits according to requirements from time to time. Further, if a constituent has been borrowing from other sources for his business purposes, the bank should endeavour to persuade him to repay such borrowings and deal exclusively with it for all his credit requirements. If necessary, finance to repay existing borrowings from other sources should be made available provided such borrowings were availed of for business purposes. This will assist the bank in verifying the end-use of funds and also minimise the possibility of use of funds for antisocial purposes such as

speculation, interlocking, overtrading, hoarding, etc. Where the requirements of a borrower are large, the principle of one bank one borrower can, however, be modified by a consortium of banks entering into participation arrangements or by mutual arrangement between banks. Exception to the principle of one bank one borrower may also be allowed in the case of advances availed of from term financing institutions, factories of the same concern situated at different places, etc.

FOLLOW-UP OF ADVANCES AT THE BRANCH LEVEL

7.8 The follow-up action at present taken at the branch level consists of the scrutiny of operations in the accounts, verification of the security, its valuation, insurance cover, etc., (usually at monthly intervals) and examination of periodical stock statements submitted by the borrowers. We recommend that the Agent and/or other senior officials at the branch should also pay frequent visits to the place of business of the borrowers accommodated for manufacturing, production or trading activities, for discussion with them on matters such as trend of business, difficulties encountered and measures to solve them. During the visits, the officials should try to ascertain whether large drawings made from the accounts were for genuine business purposes, whether the inflow of cash in the business was regularly deposited in the account, whether the production and marketing activities of the concern have been running smoothly and whether the stocks have been properly and securely stored. Our suggestions regarding the follow-up action in respect of advances to priority sectors are incorporated in the relevant chapters.



CHAPTER 8

FINANCING OF AGRICULTURE

8.1 Financing of agriculture is a comparatively new field which commercial banks have entered recently. The procedures adopted by them are, more or less, in the innovation and experimentation stage and it will take some time before they become firmly established in the light of the experience gained. As in the case of industry, the agriculturists also need finance on long-term, medium-term and short-term basis. Long-term and medium-term finance is required for development of land, growing of orchards, purchase of agricultural machinery, etc., while short-term finance is required for cultivation expenses such as purchase of agricultural inputs, payment of wages to labour and for carrying on other production and marketing activities. Production finance is essentially seasonal in nature and, to be of real use to the farmer, it should be timely and adequate. Other important aspects relating to financing of agriculture are that the credit granted to the farmers is required to be supervised, proper end-use of funds has to be ensured and the procedures have to be simple and expeditious. The Group has kept these points in view while making its suggestions. Our recommendations regarding the simplification of application form dispensing with detailed credit reports on small borrowers and creation of agricultural cells on functional basis at regional offices have already been made in the preceding chapter. Other suggestions relating to the procedures involved in financing of agriculture are incorporated in the succeeding paragraphs.

DELEGATION OF POWERS TO SANCTION ADVANCES

8.2 In order to reduce unnecessary delay in dispensation of credit, it is essential that the grant of small production advances to agriculturists should not normally be required to be referred for sanction to the regional office or the head office. Considering the requirements of an average agriculturist, we recommend that the agents of the rural branches should be vested with discretionary powers to sanction advances upto Rs. 3,000 per borrower. The bulk of advances in excess of this amount should be allowed to be granted by regional office and reference to the head office should be restricted to the proposals in regard to plantations, large scale farming, land development and irrigation schemes, etc.

GUIDELINES RELATING TO SCALE OF FINANCE

8.3 Branch agents should be in a position to appraise the credit needs of farmers on a realistic basis in order to properly use the discretionary powers

to sanction advances vested in them. It is necessary for this purpose to provide them with data regarding the cost of production, storage and marketing in regard to various types of crops grown in the area. Regional offices can frame guidelines in this regard by collecting information on cropping patterns, costs of agricultural inputs, labour charges and other agricultural operations as well as storage and marketing facilities from the studies already made by other institutions and also by consulting officials of Co-operation and Agriculture Departments, Extension Officers and Zilla Parishad Officers. They may also consider financing such studies by local universities, colleges or other expert bodies. With the help of these guidelines, the branch agents would be in a position to check whether the amount of finance requested for by a borrower is reasonable and would avoid overfinancing or underfinancing.

DISBURSEMENT OF CROP LOAN TO THE FARMER

8.4 Considering the large number of small advances which are required to be granted at rural branches and the limited quantum of staff which can be posted there, the finance to small agriculturists for crop loans should be made available by granting to them fixed loans rather than by sanctioning cash credit or overdraft limits in their favour. In order to avoid misutilisation of funds by the borrowers, we recommend that the total amount sanctioned to the farmers should be disbursed in instalments in accordance with their needs for various agricultural operations. The number of instalments should not, however, be too many (generally not exceeding three) as the agriculturist is busy during the season and he would find it difficult to visit the bank often to collect the loan instalments. We further recommend that, as far as possible, banks should disburse credit by making direct payments to the suppliers of inputs. One of the banks has introduced a scheme of 'Agri Cards' which entitle the farmers to buy seeds, fertilisers and pesticides to the extent of a specified amount from authorised dealers without making any cash payment. The borrowers' accounts with the bank are debited with the amount equivalent to the cost of purchases when the relative invoices are presented to the bank by the authorised dealers together with receipts from borrowers. Other banks should introduce similar schemes taking care to see that finance provided in kind of a particular input is commensurate with the need-based requirements of the farmer. To avoid widespread misuse of the facility, any instance of wrongful utilisation which comes to notice during the scrutiny of roving officers or branch officials or as a result of investigation of complaints received should be strictly dealt with by taking appropriate action against the relative dealer and the borrower.

EXTENSION TO THE COMMERCIAL BANKS OF THE PRIVILEGES AND CONCESSIONS ENJOYED BY CO-OPERATIVE BANKS

8.5 Co-operative banks enjoy certain privileges and concessions from various State Governments in regard to exemption of stamp duty, registration

fees and charge for issue of non-encumbrance certificates and in the matters of recovery of loans and creation or priority of charges. As commercial banks have now entered the field of agricultural finance, it is necessary that similar concessions should also be extended to them. The extension of such facilities is expected to enable the banks to simplify their procedures and liberalise the conditions for grant of credit. Following the recommendations made by the 'Seminar on Financing of Agriculture' convened by the Reserve Bank of India in December 1968, the 'Expert Group on State enactments having a bearing on commercial banks lending to agriculture' (Talwar Committee) has studied this matter in its various aspects. We recommend that expeditious steps should be taken, in the light of the suggestions made by that Group, to ensure that commercial banks are not made to suffer from any direct or indirect legal disabilities which co-operative banks are not subjected to and also to ensure that all the privileges and concessions enjoyed by these banks are extended to commercial banks.

SUPERVISION OVER ADVANCES

8.6 Agricultural finance has to be supervised both in the interests of the lender and the borrower. Frequent visits should be paid to the farms by the branch officials as well as by the officers attached to the agricultural cells at regional offices. The purpose of the visit should be to ascertain the progress of cultivation, verification of security (such as pump sets) charged to the bank and other implements purchased with the use of the bank's finance and to find out whether the finance already granted has been properly utilised as also to assess the quantum of finance needed for further agricultural operations. The branch agent should, as far as possible, ensure that such verification has been carried out before making available to the borrowers further drawings from their accounts in accordance with the phased programme for grant of credit. The branch officials have also to keep a watch on the marketing arrangements made by the farmer for disposal of his goods in order to ensure that the advance is repaid when the crop, for raising of which finance was made available by the bank, is sold by him. The important point is that the branch officials should at no time lose direct contact with the borrowers.

RURAL BRANCH—AREA OF OPERATION, RECRUITMENT OF STAFF AND WORKING HOURS

8.7 In order to ensure proper supervision over the credit, it is necessary that the farms of the borrowers should be within a reasonable distance of the branch office so that the officials are in a position to periodically visit them. We, therefore, recommend that the area served by a village branch should normally be restricted to a radius of about 15 to 20 kilometers from the branch depending upon the nature of available communication and conveyance facilities. We, however, realise that exceptions may have to be made to this general rule in suitable cases, particularly in respect of underbanked regions until banking facilities are adequately spread out.

Banks also experience difficulty in regard to the availability of staff at the village level. Employees who are transferred from city/town offices to rural branches usually resent such transfers in several cases due to lack of suitable housing, medical and educational facilities in the villages. It may be possible to get over this difficulty by recruiting, to the extent possible, local persons with requisite minimum qualifications. Further, the work at rural branches is not constant throughout the year. It is heavy at the beginning of the agricultural season, when loan applications are to be sanctioned, and again soon after harvesting, when recoveries are to be made; it is comparatively slack at other periods. It is, therefore, desirable for banks to employ, to the extent possible, part-time, temporary or seasonal staff at their rural branches.

It is also necessary that the working hours of the rural branches should be so arranged as to suit the convenience of the farmers who are busy in the fields during the day time. Keeping the rural branches of the banks open for a couple of hours in the evening and extension of the facility of mobile banks can help in inculcating the banking habit amongst the rural public. The villagers who go to the 'Mandi' towns for sale of their produce often get payments late in the evenings. It will be convenient for them if the branches of banks at such places are kept open for business in the evening. This facility will permit them to obtain drafts drawn on the branches at their villages by paying cash received by them as sale proceeds, thus obviating the risk of being robbed while returning in the night to their villages. We, therefore, recommend that the branches of banks at rural and *mandi** centres should be kept open in the evening, if necessary by suitably reducing the working hours in the day time, to provide convenience to the villagers. The extension of the facility of mobile banks can also be helpful in this regard.



CHAPTER 9

FINANCING OF SMALL SCALE INDUSTRIES

9.1 As an integral part of the development of economy on a planned basis, banks are expected to assist in the setting up and smooth functioning of viable small scale industries. While assessing their credit limits and stipulating the terms and conditions, it is necessary to keep in mind that financing this sector is both a business and a developmental activity. These industries require special treatment in view of their low capital base, inability to obtain sufficient credit from the suppliers of their raw materials and necessity to afford sizeable credit to their purchasers in order to push their sales. Banks have, therefore, to make credit available to them quickly and on a liberalised basis. It is also necessary to ensure that all genuine credit needs of the units are provided for by financing institutions so that they are not forced to approach non-institutional lenders even for their temporary requirements. Accordingly, finance should be made available to them to repay existing borrowings from other sources if they were availed of for business purposes. These industries engage themselves in a wide range of production activities and the initial assessment of the viability of their projects as well as the subsequent supervision over their working require technical knowledge. The procedures pertaining to the grant of credit to small scale industries should, therefore, minimise the delay in disbursal of the finance and also provide for a close supervision of the working of borrowing units by the officials at the branches as well as by the technical staff attached to the special cells at regional offices. Our recommendations in this chapter are based on these considerations and mainly relate to relaxations from the normal credit procedures.

DELEGATION OF POWERS

9.2 Taking into consideration the average requirements of small scale industries, we recommend that branch agents of small urban branches should be vested with discretionary powers to sanction working capital advances at least to the extent of Rs. 10,000 against hypothecation of stocks, Rs. 25,000 against pledge of stocks, Rs. 2,500 on a clean basis and Rs. 10,000 against documentary bills. Powers of branch agents at bigger branches should be fixed suitably, taking into account the type of business at the branch and the experience and ability of the concerned officials. The bulk of the credit limits in excess of the discretionary powers of the branch agents should be sanctioned by regional offices.

TERMS AND CONDITIONS OF ADVANCES

9.3 In several cases, the raw materials and other stocks, charged as security to banks, are required to be handled by small scale units during factory hours for the purpose of processing. These goods cannot always remain in the godowns under the bank's lock and key. Some of the banks, therefore, grant 'Factory Type' of advances, the arrangement being that the godowns are kept open during working hours to enable the borrowing unit to take deliveries and make storages of goods under the supervision of the bank's godown-keeper who is posted at the factory. This procedure involves charging of the godown-keeper's salary to the borrowing unit, which finds it difficult to bear these expenses. It would, therefore, be preferable to convert such advances on a hypothecation basis or on '*mandi*' type basis. In the latter case, the bank obtains pledge documents, affixes its name boards on the godowns to indicate its constructive possession and retains a right to post a godown-keeper but, so long as the account is conducted satisfactorily, the stocks charged as security are not kept under its actual custody by the banks and godown-keeper is also not posted. These industries may also find it difficult to take delivery of the goods required to be booked to outstation centres against full payment. In such cases, banks may give delivery of goods to the units without insisting on prior payment on the basis of a trust receipt, until the relative bill drawn on the consignee is ready for being given to the bank as security. Banks may also have to give the benefit to these units of customs and excise duties paid while making valuation of goods for the purpose of advance and also relax the usual margins in suitable cases, after taking into account the concerns' ability to provide them. They may also have to provide clean accommodation to the units in order to enable them to tide over temporary liquidity problems, arising out of payment of income-tax, workers' wages, etc., or by way of purchase of clean bills to facilitate movement of goods. Financial guarantees to a reasonable extent may have to be given on behalf of the borrowing units to enable them to secure contracts for supply of goods, proper performance of works undertaken, etc. Further, they may have to be liberally accommodated against book debts and supply bills. The instances related by us above illustrate some of the circumstances in which relaxations from the usual terms and conditions may have to be allowed to small scale units. The important point is that, while managing the credit operations, banks should ensure that genuine credit needs of viable concerns are met adequately. In order that such needs are met in time, branch agents and regional offices should be authorised suitably to relax the terms and conditions and/or to interchange the credit limits sanctioned in favour of the units. We, therefore, recommend that relaxations from usual formalities, such as grant of hypothecation advances or '*mandi*' type advances in place of factory type advances, release of pledged goods against trust receipts, low margins on the basis of the ability of the borrowing concerns to provide them and valuation of goods on a realistic basis should be extended to deserving small scale industries.

TECHNICAL REPORTS

9.4 While considering the applications for term finance from small scale industries, banks usually insist upon the reports on technical and financial feasibility of projects from consultancy firms and institutions. In regard to advances for working capital purposes, branch agents are required by banks to obtain technical reports whenever they are considered essential. In several cases, however, branch agents call for these reports as a routine requirement. It should be possible for branch agents to appraise the applications from small scale industries for working capital finance themselves or, where necessary, with the assistance of the technical staff attached to the specialised cells at regional offices without insisting upon the reports from technical institutions. Dispensing with technical reports will not only minimise the delay in disbursal of credit but will also save a sizeable amount of expenditure on the part of the applicant units. We, therefore, recommend that in respect of working capital advances technical reports from consultancy firms or institutions need not be insisted upon as a matter of course.

COLLATERAL SECURITY

9.5 It is the practice of some of the banks to obtain mortgage of land and premises and hypothecation of machinery as collateral security, while sanctioning credit limits for working capital finance, on the ground that the borrower should be prevented from obtaining further finance against these securities without the bank's knowledge. The insistence on collateral security delays the disbursal of credit, as the formalities such as search of prior encumbrances and obtaining legal opinion have to be gone through and expenses by way of stamp duty have to be incurred. Further, land and buildings and machinery should preferably be left free to enable the borrower to obtain term finance for renovation, modernisation or expansion of projects. We, therefore, recommend that banks need not insist upon, as a matter of course, mortgage of immovable property and hypothecation of machinery as collateral security for working capital advances.

SUPERVISION OVER ADVANCES

9.6 In view of the fact that finance on liberal terms and conditions is granted to small scale industries, adequate supervision over their working is essential. Visits to the factories of the borrowing concerns should be paid by the branch officials at least once a month and, besides, the technical staff at the regional offices should visit the factories at periodical intervals. The purpose of these visits should be to make a general assessment of the working of the units and to ascertain the end-use of the funds provided by the bank, apart from the verification of the security charged to it. As the Agents or the Accountants of branches having a large number of small scale industries accounts will not have sufficient time at their disposal to pay monthly visits, banks should appoint supervisors for the purpose at such branches.

TECHNICAL AND MANAGEMENT CONSULTANCY SERVICES

9.7 We are of the view that a separate supplementary agency, as envisaged by the 'Committee to review the special credit schemes of banks with particular reference to employment potential' (*i.e.*, Thakkar Committee), should be created for giving guidance and rendering technical and management consultancy services to the borrowers rather than the banks themselves undertaking this function. In reply to the questionnaire issued by us, some of the banks have expressed difficulties in regard to rendering of such services. They feel that banks should not involve themselves in the active day-to-day management of small scale industries and should not place themselves in a position which would make them liable for the advice tendered. Another difficulty expressed by them is that for tendering proper advice, experts in several fields would have to be employed and there might not be sufficient opportunity to keep them fully employed. We are not, therefore, in favour of the individual banks establishing full-fledged consultancy agencies. They may, however, make available the services of their technical staff (employed for the purpose of appraisal and supervision of advances at the head office or regional offices) in their spare time to the borrowing units—on their request and on an informal basis—for consultation on urgent problems.



CHAPTER 10

FINANCING OF EXPORTS

10.1 During recent years, commercial banks in India have been quite active in rendering financial assistance to exporters. The assistance covers the entire spectrum of the export activity from the purchase of raw materials and processing of the goods to their shipping to foreign countries and the receipt of their sale proceeds. Banks provide both pre-shipment and post-shipment finance by way of packing credits and discount of bills and also allow credit against duty draw backs and subsidies. The question of simplification of bank procedures relating to financing of exports was, *inter alia*, examined by the National Institute of Bank Management in a workshop held in May 1970. After considering the recommendations made by the workshop our Study Group has decided to endorse some of them, which are mentioned below in paragraphs 10.2 to 10.5.

EXTENSION OF EXPORT FINANCE FACILITIES TO INLAND CENTRES

10.2 With the growth of consciousness of the opportunities and value of exports, the scope of products manufactured in inland centres, especially non-traditional items, in the composition of exports is increasing and is likely to increase further. The number of centres where banks provide intensive export finance facilities are, however, limited and should, therefore, be increased.

HANDLING OF EXPORT DOCUMENTS

10.3 Whenever documents are drawn under a letter of credit and are tendered by the exporter for discounting to an inland branch, it sends them to a branch authorised to transact foreign exchange business. In such cases, in order to avoid protracted correspondence between the inland branch and the negotiating branch, the former should obtain indemnity from the exporter against any discrepancies.

The bills of exchange relating to exports are required to be stamped before execution and have to be sent to the stamp office which causes avoidable delay. To eliminate this delay, banks should be allowed to stock stamps and instal special franking machines in larger offices, if necessary, by amending the Stamp Acts suitably.

PACKING CREDITS

10.4 Banks extend packing credit facilities either by way of pledge or hypothecation of goods and in a few cases also on a clean basis. There is, apparently a need for expansion of clean packing credit facilities. As soon as the exporter receives a firm order and/or letter of credit, a certain percentage of the value of the order could be made available to him for purchasing goods/raw materials, for incurring processing costs, etc., and at a later date hypothecation of the relative goods could be effected so as to make the advance secured. The grant of such facilities should, however, depend upon the creditworthiness of the exporter, his past dealings and past export performance. Constant and strict vigilance would also be necessary to ensure proper end-use of such packing credit facilities.

INTER-BANK EXPORT INFORMATION CENTRE

10.5 An Inter-Bank Export Information Centre may be set up to collect and disseminate up-to-date export information which would be of general and practical interest to all banks. The centre may open offices at all metropolitan cities. It should prepare export information in a suitable form consisting, *inter alia*, of the export opportunities of various types of commodities to different countries, customs and exchange control regulations in these countries and export regulations and procedures in India. The information should be furnished by the centre to Export Departments of banks from where it would flow to the branches. The centre would avoid duplication of data collection and would thereby reduce the total cost to the banking industry. Small exporters who have neither contacts nor financial means to explore foreign markets would be considerably benefited by the centre.

POSTING OF OFFICERS WITH FOREIGN EXCHANGE EXPERTISE AT THE REGIONAL OFFICES

10.6 Besides endorsing the suggestions of the workshop, we have also to make the following additional suggestion. In Chapter 7 [item 7.2 (iv-b)] we have already suggested that regional offices of banks should have specialised cells on functional basis with adequate trained staff for assessment of advance proposals from priority sectors and for supervision and review of advances granted to them. Banks generally have foreign exchange departments only at metropolitan centres and a few port towns. In order to provide facilities to the customers and guidance to the branch agents, banks should post at least one officer with adequate knowledge of foreign exchange procedures at the regional offices which do not have full-fledged foreign exchange departments. These officers should, whenever necessary, visit the branches within the region for guiding the agents and other staff in handling foreign exchange business as well as for attending to developmental activities and for giving assistance to the customers in respect of their foreign trade problems.

CHAPTER 11

FINANCING OF OTHER SMALL BORROWERS

11.1 In the previous three chapters we have dealt with bank procedures relating to the financing of three priority sectors, *viz.*, agriculture, small scale industries and exports. There is one more group of borrowers which also needs special attention. This group includes small traders, professionals, artisans, contractors, mechanics, transport operators and other self-employed people. The Thakkar Committee, constituted by the Reserve Bank of India, recently reviewed the special credit schemes of banks and has suggested certain guidelines for action. The recommendations of the Committee mainly relate to the developmental aspects. It has, however, indicated that for proper implementation of credit schemes there is a need for simplifying the application form, delegating wider powers to the branch agents, relaxing the terms and conditions for grant of credit and streamlining of supervision over advances.

The views of our Group on the bifurcation of application form in respect of advances to small borrowers, dispensing with maintenance of detailed credit reports and creation of special cells at regional offices for appraisal of loan proposals have already been incorporated in Chapter 7 while our suggestions relating to the terms and conditions of advances to small scale industries, as stated in paragraphs 9.3 and 9.5 of Chapter 9, apply *mutatis mutandis* to other small borrowers also. Our other specific suggestions are given in the succeeding paragraphs.

DELEGATION OF POWERS TO BRANCH AGENTS

11.2 The success of the schemes formulated by banks for assisting the weaker and so far neglected sectors of society, largely depends upon the branch agent who, as pointed out by the Thakkar Committee, is the king-pin in the organisational set-up for implementing credit schemes. It is, therefore, necessary that he should be clothed with adequate powers so that he can meet in time the credit needs of various types of borrowers in this category. After considering the practices followed by the banks and the average need of borrowers, we suggest that branch agents of small branches should be authorised to grant advances to small borrowers upto at least Rs. 5,000 on secured and Rs. 2,500 on clean basis without reference to the regional office or the head office. The powers of the agents of bigger branches should be suitably fixed at higher levels.

REGISTRATION OF HYPOTHECATION CHARGE

11.3 The security for the advances in this category usually comprises hypothecation of the goods purchased by borrowers with the help of bank finance. In respect of advances against hypothecation to companies, banks are protected by virtue of statutory provision for registration of their charge with the Registrar of Companies. However, in regard to other categories of borrowers, *i.e.*, firms, individuals, etc., there is no provision for registration of charge. Banks, therefore, run a risk that, in any legal proceeding that might arise, their rights might be postponed to those of a pledgee or purchaser in possession who had no notice of the bank's hypothecation, an assignee in insolvency or an execution creditor or a prior hypothecatee. We, therefore, feel that the feasibility of creating a suitable machinery for registration of charge on movables, with a simple and inexpensive procedure for its verification, should be examined from legal as well as practical angles.

THIRD PARTY GUARANTEES

11.4 While considering grant of clean advances to small borrowers, guarantee of a third party is generally insisted upon by some of the branch agents as a matter of course. This practice often deprives the needy and deserving borrowers from obtaining adequate finance. At times, they have to pay heavy commission charges for securing guarantees acceptable to the bank. We, therefore, feel that banks may insist upon guarantees of third parties only when there are reasonable doubts about the repaying capacity of the borrower.

SUPERVISION OF ADVANCES

11.5 It is essential that the branch officials should keep a close contact with the small borrowers in order to keep a constant watch on the condition of their business. They should pay a visit to the borrowers' places of business, even in cases where clean advances have been granted, at least once a quarter. It should, however, be ensured that the formalities prescribed regarding the submission of stock statements, maintenance of stock registers, etc., do not become irksome to small borrowers who are not in a position to maintain adequate staff for the purpose.

NIGHT-SAFE FACILITY

11.6 While sanctioning advances to small borrowers, one of the conditions usually stipulated relates to deposit of daily cash collections by way of sale proceeds, etc., in the relative accounts. However, due to restricted banking hours, these borrowers have often to keep cash at their business premises or their residences overnight and deposit the same in the bank next day morning. The introduction of night-safe facility may solve their difficulties.

One of the urban co-operative banks has already introduced this facility. A leather wallet is supplied to the customer, which can be locked after placing cash and other valuables therein and deposited in the night-safe at the bank upto 10.30 p.m. He is given a token after an entry has been made in the register kept by the night clerk. Next day, he can visit the bank, exchange the token for the wallet and deposit cash in his account and valuables in his locker. This bank obtains Rs. 60 as a deposit towards the cost of the wallet and charges Rs. 50 per annum for providing this facility. Banks may adopt the scheme, with such modifications as may be necessary, in localities where the customers are in need of the facility.



CHAPTER 12

INTER-BRANCH ACCOUNTS

12.1 The transactions which pass through inter-branch accounts mainly relate to issue of drafts, mail transfers and telegraphic transfers, realisation of bills sent or received for collection, supply by head office of articles such as stationery, furniture, etc., interest charged or paid by head office on lending to or borrowing from branches and transfer of profit or loss by branches to head office. With the increase in the issue of drafts and in the collection and purchase of bills as also in the number of branch offices, the volume of work handled at the Central Accounts Sections of banks has grown enormously. Consequently, the reconciliation of inter-branch accounts is posing a serious problem as it remains in arrears for months together in the case of several banks. Delays in tracing unmatched entries and their follow-up with the concerned branches are potentially dangerous as several frauds have been perpetrated in banks by manipulations in inter-branch accounts. We are, therefore, suggesting certain guidelines for minimising the difficulties experienced by banks in reconciling inter-branch transactions as also precautions that could be usefully observed for avoiding frauds. We have already suggested in paragraph 3.5 of Chapter 3 that banks should gradually mechanise their accounting systems. Mechanisation/computerisation of inter-branch accounts is particularly necessary considering the volume of work involved and the importance of finding out unmatched entries and their expeditious follow-up.

ACCOUNTING SYSTEMS

12.2 Three types of accounting systems are followed by banks for putting through inter-branch transactions. These are : (i) Mutual accounting system under which each branch maintains in its books the account of every other branch ; (ii) Centralised-cum-regional accounting system which requires the branches to maintain two types of accounts in their books, *viz.*, regional office account and head office account—transactions in respect of branches within the region are passed through the former account while those in respect of branches in other regions are passed through the latter account ; and (iii) Centralised accounting system under which all inter-branch transactions are passed through the head office account maintained by each branch in its books.

Mutual accounting system is unsuitable to banks having a large number of branches. Centralised-cum-regional accounting system has been tried and discarded by some of the banks due to difficulties experienced in reconciliation for reasons such as passing of erroneous entries by branches in head office

account instead of regional office account and *vice versa*. Of the three systems, the centralised accounting system, therefore, appears to be the most suitable as, besides ensuring effective control, it is also more amenable to mechanisation. However, inter-branch transactions between branches situated in the same city may be passed through the accounts maintained by them with the local main office instead of through the head office account.

ALLOTMENT OF CODE NUMBERS TO BRANCHES

12.3 In order to avoid passing of incorrect entries at the responding branch, the originating branch should take care to ensure that the covering schedules, remittances or realisation advices and daily statements of head office account are neat, clear and accurate and are despatched promptly. Further, to eliminate the confusion caused by the similarity in names, code numbers should be allotted to branches which should be required to write the number, in addition to the name of the branch, on all advices, daily statements of head office account, remittance schedules, etc. The Reserve Bank of India, in consultation with the Indian Banks' Association, has devised a system of uniform code numbers for banks, branches and towns and the same numbers may preferably be used by banks for the purpose of inter-branch transactions.

PASSING OF CONSOLIDATED ENTRIES

12.4 The number of entries in inter-branch account can be reduced considerably by passing consolidated debit and credit entries in respect of each branch according to the categories of transactions instead of passing separate entries for each draft issued or each bill realised or for other similar transactions. Thus, one entry may be passed for all the drafts issued on a branch, another entry for realised bills originating from a particular branch and so on. While sending the advice of the consolidated entry to the concerned branch, the details of the transactions covered by the entry should also be advised. Even if the responding branch finds out some mistake or discrepancy in respect of any particular item, it should respond to the entry for the full amount. The disputed amount may be debited or credited to suspense account and the matter taken up with the originating branch separately.

12.5. In order to facilitate matching of entries at the Central Accounts Section, daily transactions relating to inter-branch account should be grouped at branches under specified categories, *e.g.*,

<i>Credit</i>	<i>Debit</i>
1. Drafts issued on branches	1A Draft advices received from branches
2. Mail transfers issued on branches	2A Mail transfers received from branches

<i>Credit</i>	<i>Debit</i>
3. Telegraphic transfers issued on branches	3A Telegraphic transfers received from branches
4. Bills received for collection realised	4A Bills sent for collection realised
5. Transactions with head office/ regional office.	5A Transactions with head office/ regional office.
6. Other transactions	6A Other transactions

USE OF SCHEDULES OF DIFFERENT COLOURS

Supporting schedules of different colours should be prepared by branches for each category of entries, using the same colour for schedules of debit and credit transactions of similar type. The schedules should be sent to head office together with the statement of head office account which should contain totals of debit and credit entries detailed in the schedules, besides the opening and closing balances. This procedure will facilitate matching of originating and responding entries as the transactions of similar type will be reported in the schedules of the same distinctive colour.

ENTRIES RELATING TO TELEGRAM, POSTAGE CHARGES, ETC.

12.6 Telegram and postage charges, etc., incurred in connection with the collection of bills should be borne by the branch which actually incurs them. To avoid protracted correspondence and disputes, such charges should not be debited to the branch from which the bill was received for collection.

FOLLOW-UP OF UNMATCHED ENTRIES

12.7 The outstanding entries should be promptly followed up and the reasons for their remaining outstanding should be ascertained. The form used by the Central Accounts Section for obtaining comments of a branch in respect of long outstanding entries, besides detailing the particulars of relative entries, should contain alternative replies expected from the branch in the lower portion separated by perforation. The concerned branch after examining the position can merely tick off or write a few particulars in the reply portion of the form such as "responded on", "does not pertain to this office", etc., and despatch it.

FRAUDS IN INTER-BRANCH ACCOUNTS

12.8 Banks should pay careful attention to the following aspects for minimising frauds in the inter-branch accounts :—

(i) Originating debit entries and reversal entries in the inter-branch account, require to be carefully watched. The reasons for which such entries

have been passed should be suitably explained by the branches by giving necessary remarks while reporting them to the Central Accounts Section in the daily statements. The latter should examine the entries carefully.

(ii) The long outstanding entries for large amounts, say above Rs. 10,000, should be immediately brought to the notice of a senior executive who should decide whether any special probe is necessary in regard to any particular transaction.

(iii) The Internal Auditor should scrutinise the long outstanding entries pertaining to the branch during the course of his audit. Besides, he should make a test check on random sampling basis of the entries in the head office account at the branch. It may be useful in the case of banks having a large number of branches to select a few branches, on the basis of a properly devised sample, for examination of all transactions in the account pertaining to say a week or a fortnight. He should pay particular attention to the reversal and originating debit entries.



CHAPTER 13

INTERNAL AUDIT AND INSPECTION

13.1 Internal audit/inspection is one of the important instruments adopted by banks for exercising supervision and control over the working of branches. The main operative functions of a bank relate to borrowing and lending of money. As there is an inherent risk in all monetary transactions, banks lay down detailed procedures for conducting various day-to-day operations for the guidance of branch officials. The main purpose of the internal audit/inspection is to find out whether the business at a branch is being conducted strictly in accordance with the rules, regulations and procedures prescribed by the head office.

TYPES OF INSPECTIONS

13.2 Some of the banks do not make a clear distinction between internal audit and inspection while certain others do so. The staff employed by banks for inspecting branches can be of three distinct categories, *viz.*, Internal Auditors, Branch Inspectors and Godown Inspectors. Internal Auditors conduct a physical verification of cash and other valuables owned by or charged to the bank as security, examine books of account in order to see whether they are properly maintained, checked and balanced and scrutinise the business of the branch to see whether it is being conducted in accordance with the instructions issued by the head office from time to time. Branch Inspectors have, *inter alia*, to make a qualitative scrutiny of the advances portfolio, examine the profit earning capacity, lay out and security arrangements as also adequacy, proper utilisation and efficiency of the staff. They have to critically assess the standard of customer service rendered by the branch, use of discretionary powers by the branch officials and effective observance of the procedures laid down and instructions issued by the head office as also the directives and guidelines issued by the Reserve Bank of India and other authorities.

Banks which do not make any distinction between internal audit and inspection entrust the entire work to the same category of staff. Considering the duties of an Inspector, he should be drawn from senior cadres and if he is burdened with the routine internal audit work, his talent and time are likely to be wasted. On the other hand, an Internal Auditor, who will be comparatively junior, will not be able to do full justice to the inspection work. Verification of stocks pledged/hypothecated to the bank should also be preferably conducted by a separate category of staff, *viz.*, Godown Inspectors,

especially in view of the increase in the number of advances granted to small scale industries, etc. Such an arrangement will lighten the burden on the Internal Auditors, whose stay at the branches will otherwise be unduly prolonged. We, therefore, recommend that inspection staff should normally consist of Internal Auditors, Branch Inspectors and Godown Inspectors. However, as it may not be convenient for small banks to maintain inspection staff of three categories, the Branch Inspectors appointed by them may also carry out internal audit and godown inspections.

The inspection of advances to agriculturists stands in a separate category. In view of the large number of accounts and dispersal of security in a wide area, Internal Auditors would take inordinately long time to conduct physical verification of the securities. While the Internal Auditors may examine documents, operations, etc., in all accounts, they may verify securities only in respect of selected accounts on random sampling basis. It would, however, be desirable to verify all securities held in accounts which are grossly out of order or in respect of which complaints have been received. In addition, a scrutiny of advances to farmers should be carried out by roving officers attached to special cells at regional offices as suggested by us in paragraph 7.3 (iv) of Chapter 7.

ORGANISATION OF INSPECTION AND AUDIT DEPARTMENT

13.3 The Inspection and Audit Department should be directly responsible to the Chief Executive Officer of the bank. For the sake of convenience and in the interest of economy, members of the inspection staff may be posted at different regional offices but they should be under the direct administrative charge of the head office and the regional managers should have no control over their promotions, transfers, increments, leave, etc., during the period they are entrusted with inspection duty. This arrangement will remove an inhibiting factor which hampers expression of free and frank comments on their part and will facilitate factual reporting of irregularities noticed by them. Further, to the extent possible, the officials who were previously working in a particular region should not be asked to carry out inspection of branches situated in the same region.

In view of the nature of their duties, Internal Auditors should have a thorough knowledge of the procedures and at least five years' experience of handling different types of work in responsible capacities. Banks should institute suitable recruitment policies and training programmes to achieve this objective.

Branch Inspectors should be senior and experienced enough to be in a position to critically comment on and assess the quality of business conducted by the branch officials. They need not be required to look into developmental aspects of business at the branches they inspect as this work should be the responsibility of the regional managers.

FREQUENCY OF AUDIT/INSPECTION AND FORMULATION OF PROGRAMMES

13.4 It is observed from the replies received from commercial banks to the questionnaire issued by the Banking Commission that frequency of audit/inspection of branches of banks varies from once in 6 months to once in 18 months. We feel that while the internal audit/inspection should ordinarily be conducted once every year, the verification of stocks pledged/hypothesized to the bank should be carried out once in each quarter. One of the quarterly visits of the Godown Inspector should synchronize with the annual audit/inspection. The audit/inspection should be on a surprise basis. It should be ensured that the agent or other staff members at the branch are not informed of the forthcoming audit/inspection privately or otherwise. Interval between two audits/inspections should be suitably varied in order to avoid a pattern ; for example, if an audit of a particular branch was conducted, say in October, the next audit need not be in October of the following year, it may be programmed a month or two earlier or later. It is also necessary to see while drawing the programme that an official does not visit the same branch consecutively. To facilitate chalking of inspection programme, cards for each branch containing history of previous inspections may be maintained by the inspection and audit department. The cards should be arranged in a chronological order on the basis of the dates of last inspections.

As far as possible, the inspection should be taken up when the internal audit is nearing completion or soon after its completion. This procedure will ensure that the findings of the Internal Auditor are available to the Inspector who need not waste his time in examining the routine items. However, in the case of large branches, the audit and inspection may be taken up simultaneously and one or more Internal Auditors may be deputed to assist the Inspector. Continued presence of inspection staff at a branch for a long time disturbs its day-to-day working and, therefore, the size of the team should be sufficiently large so as to complete the audit/inspection expeditiously.

Some of the foreign banks carry out concurrent audit of their branches. A similar practice is followed by certain co-operative banks. At each centre, a separate team of Auditors is located and checking of books of account on a day-to-day basis is carried out by them. We recommend that the Indian banks also may follow a similar system in respect of their main offices in the metropolitan cities which due to their large size and composition, consisting of several departments, present considerable difficulty in expeditious conduct of regular inspections. If this system is adopted, it will be possible to considerably reduce the audit element in the annual inspections which would, thus, be completed expeditiously.

GUIDELINES FOR INSPECTION STAFF

13.5 Certain important points which may be borne in mind by the inspection staff are indicated below :—

(i) Branch inspection should not merely be a routine check of the books and records of the branch but an intelligent examination of the assets and liabilities and overall review of the branch's working. For example, while examining the advances, besides looking into matters such as documentation, operations in the account, security, guarantee, etc., the inspection staff should try to ascertain the end-use of the funds, the trend of borrowers' business and the adequacy of limits and sub-limits sanctioned. It should also be seen whether the quantity and value of raw materials, finished products, stocks-in-process, etc., are commensurate with the production capacity and business turnover of the borrower or they show any indication of having been inflated. While reviewing the working of the branch, the efficiency of staff, security arrangements, maintenance of premises and furniture, proper utilisation of liquid resources, quality of customer service rendered, etc., should be looked into.

(ii) Apart from the examination of various assets and liabilities of a branch outstanding at the time of audit, a test check of some of the transactions effected since the date of last audit on random sampling basis and a percentage check (say 5 to 10 per cent) of the account opening forms, specimen signature cards, notings in respect of cheque books issued, recording of stop payment instructions, compliance with standing instructions, etc., should be made by the Internal Auditor.

(iii) In order to ensure that audit/inspection is thorough and exhaustive, a check list on the lines of the 'Hand Book for Bank Inspectors' prepared by the Bankers Training College should be supplied to the inspection staff.

(iv) The approach of the Inspector should not be merely critical but should be constructive. He should not only bring out the irregularities observed but also make suggestions for improvement in the working of the branch. He should discuss the findings of the audit/inspection with the branch officials and should arrange with the branch agent to have minor irregularities rectified, to the extent possible, during the course of inspection. A list of such irregularities should be supplied to the branch agent and a copy thereof, together with the agent's comments, should be appended to the inspection report.

(v) Major irregularities observed in the working of the branch which require specific action, including comments on advances which are grossly out of order, should be highlighted by incorporating them in an appendix to the report. Similarly, the suggestions for improving

the working of the branch should also be given in another appendix. These appendices will facilitate follow-up action at the head office level.

DETECTION OF FRAUDS

13.6 Inspection staff should make efforts not only to detect frauds committed by employees and/or others but also to find out laxity or loopholes in the procedures relating to accounting, checking, custody of valuables, security arrangements, etc., at the branch. As the *modus operandi* of frauds varies widely, the inspecting officer has to use his own intelligence and discretion while probing into a transaction which, *prima facie*, appears doubtful and no set or fixed rules can be laid down in this regard. However, we feel that the following aspects should be carefully looked into by the inspection staff :—

- (i) any deviation from the accepted procedure ;
- (ii) continuance of an employee or a set of employees at a particular desk for a long time or continuance of an officer at any particular office for a long period ;
- (iii) any member of staff having access to or control over connected books of account or a complete transaction ;
- (iv) persons related to each other holding important jobs at the same office ;
- (v) laxity in checking of books and vouchers ;
- (vi) any employee living beyond his known means or addicted to costly vices or indulging in heavy borrowings ;
- (vii) any flaw in the observance of prescribed procedures for proper custody of important books of account, documents, unused cheque/draft forms, specimen signature cards, godown keys, etc. ; and
- (viii) any impropriety in recruiting staff at the branch without careful probe into his/her antecedents, character and integrity.

RATING OF BRANCHES

13.7 In order to encourage the branches to improve their working and to introduce a competitive element, we suggest that on the basis of the findings of audit and inspection of a branch, the Inspector should arrive at an overall assessment of the working of the branch and classify it according to its standard of efficiency. In order to avoid personal bias and to eliminate subjective assessment, rating should be on a scientific basis. It is understood that the Study Group on Banking Costs* constituted by the Banking Commission proposes to suggest certain ratios for measurement of operational efficiency

* Report of the Study Group on Banking Costs, Government of India, 1971 (published in 1972), pp. 199-209.

of branches and these may have to be suitably taken into account. Further it may be necessary to devise a comprehensive list of various irregularities and components which account for developmental and organisational aspects of the bank's working. Numerical values can be given to each of the factors on the basis of weightage in accordance with their importance and uniform standards will have to be formulated for classifying the branches into different categories such as very good, good, satisfactory, average and below average. For example, minus marks may be given to the defects observed, the procedural defects such as 'ledgers not properly indexed' being given less minus marks and more serious defects such as 'documents allowed to become time barred' being given higher minus marks. Allotment of marks will also depend upon whether a particular defect is widely prevalent or persistent or has been observed only in the case of a few accounts. Plus marks can be given for good work done for developmental activities such as mobilisation of deposits. However, as this is a highly technical matter requiring research on a scientific basis, we suggest that a representative body like the National Institute of Bank Management may compile a suitable scheme for this purpose for adoption by banks.

FOLLOW-UP ACTION

13.8 In order to enable the head office to take follow-up action as early as possible and to ensure prompt action by proper authorities on the salient features of the report, we suggest that one copy of the audit report may be submitted by the Internal Auditor to the Inspection and Audit Department at the head office while another copy may be given to the branch for forwarding its comments to the head office. One copy should also be sent to the regional office. If the Internal Auditor observes any serious irregularity during the course of the audit, he should report it to the head office immediately by means of a separate communication. A copy each of the inspection report, which would contain, *inter alia*, an assessment of the working of the branch as well as efficiency of the personnel, should be sent to the regional office and to the head office but not to the branch. The head office should examine the report and take up the matters on which action is necessary with the branch and the regional office.

Any serious irregularity reported to the head office by the Internal Auditor or the Inspector should be immediately brought to the notice of the Chief Executive Officer of the bank, who may, if considered necessary, refer it also to the Board of Directors/Executive Committee. The irregularities should be followed up vigorously till they are rectified.

At the end of each quarter, the Inspection and Audit Department should prepare a memorandum on the basis of the inspection/audit reports received during the quarter for submission to the Board of Directors, bringing out, *inter alia*, major irregularities observed and action taken or proposed to be taken to rectify them.

COMMON INSPECTION AGENCY FOR PUBLIC SECTOR BANKS

13.9 As the major banks in the country are now in the Public Sector, it may be desirable to create, in due course, a common agency from the staff of the banks to carry out internal audit and inspection of branches of all the banks in that sector in substitution of the existing inspection departments in different banks. This will ensure expression of free and frank comments by the inspecting officers on the affairs of the branches examined by them as the inspection staff will not have to look forward for advancement in their career to the authorities of any particular bank. After creation of such an agency, it may be possible for the Reserve Bank of India to reduce the frequency of its inspections and also to eliminate the audit element. As the inspection/audit is expected to be more efficient after creation of the agency resulting in more effective control over the working of the branches, it may not be necessary to retain the vigilance cells recently created in banks.

While the basic accounting system is common to all banks, there is a wide divergence in detailed methods and procedures of various banks. With the nationalisation of the major banks, banking in India is entering into a new era of fruitful co-operation. There is thus a need for bringing about uniformity in various forms, documents, nomenclatures, terms, accounting procedures and norms used and yardsticks applied for deciding various matters. This will ensure availability of comparable data for studying various banking problems, enable the public to expect and receive similar treatment and facilities from various banks, facilitate exchange of material information amongst banks and bring about co-ordination in rendering of banking services. Uniformity will also facilitate the work of common inspection agency suggested above. For bringing about uniformity, a thorough and exhaustive study of the existing methods and systems prevalent in the banks in India and abroad and preparation of a comprehensive book of instructions as well as a set of various forms would be necessary. We, therefore, suggest that a committee may be appointed under the auspices of the Reserve Bank of India or the National Institute of Bank Management (i) to consider in detail the question of creation of a common agency for inspection of the offices of all banks in the Public Sector ; and (ii) to formulate standard forms and procedures, keeping in view the need for progressive mechanisation on planned basis for rendering better customer service.

CHAPTER 14

PERIODICAL RETURNS

14.1 One of the important functions of head offices of banks is to keep in touch with the working of branches by obtaining and scrutinising periodical returns and through personal contact, *i.e.*, visits of the officials to branches at suitable intervals and exchanges of views at conferences. Periodical returns called by the head offices from branches are of three types : (i) statutory returns required to be submitted to the Reserve Bank of India and other authorities, (ii) statistical returns which enable the head office to compile and analyse statistical data for reviewing the position of the bank from time to time for the purpose of planning and development, and (iii) control returns for the purpose of exercising supervision and control over the branches. The type of returns called for from the branches, their format and frequency depend upon the extent to which discretionary powers have been delegated to branch agents, nature of business conducted at branches, nature of supervision carried out through periodical inspections as well as accounting and other procedures prescribed by individual banks. A Study Group appointed by the National Institute of Bank Management on information systems, data processing and computerisation is studying in detail the question of rationalising the submission of various periodical returns by the branches of banks to their head offices and to the Reserve Bank of India. We have, therefore, confined ourselves to making certain suggestions which can serve as useful guidelines to banks.

STATISTICAL RETURNS

14.2 In view of the considerable increase in recent years in the number of branches of banks, their head offices find it difficult to compile expeditiously and collate the data furnished by branches in their periodical returns. We, therefore, suggest that statistical returns (excepting those required to be sent by branches direct to the Reserve Bank of India) should be submitted to the regional offices, which should send consolidated statements to the head office. However, where the head office has automation facilities, returns may be submitted direct to that office for consolidation and feed back of information to regional offices. Also, in cases where information is required for submission to the Government of India or the Reserve Bank of India urgently (*e.g.*, weekly statement under Section 42 of the Reserve Bank of India Act, 1934), it may continue to be collected by head offices direct to avoid the time lag involved in its being routed through regional offices.

Considering the importance of analysis and processing of statistical information as an aid in formulation of policies in regard to operations, organisation, development and planning, it is necessary that banks should establish and/or strengthen Statistical/Economic Departments. These departments will also assist banks in devising random samples as mentioned in paragraph 13.5(ii) of Chapter 13 and in arranging for or conducting surveys for various purposes.

RETURNS RELATING TO ADVANCES FOR THE PURPOSE OF CONTROL

14.3 According to the practice obtaining in several banks, branches are required to send to their head offices, periodical returns relating to all outstanding advances and/or statements of advances granted by the branch officials within their discretionary powers. These returns/statements, in view of their frequency and the volume of work involved, take a long time for scrutiny at the head office, with the result that action taken on their basis loses much of its importance due to the time lag involved. It is, therefore, necessary that the number of returns which are mainly of informative nature and their frequency should be considerably reduced. This will also lighten the burden on the branches and enable them to bestow more attention on operational and developmental work. We, therefore, recommend that branches should not be required to submit statements of all outstanding advances (other than U.B.B. returns) at frequent intervals and it will be adequate if such statements are called for once every year at the time of the annual closing. We also recommend that branches should not normally be required to submit periodical returns giving details of advances sanctioned by the officials within their discretionary powers. The insistence on submission of such statements and the fear of accountability tend to fetter the exercise of discretionary powers by branch officials and thus defeat the very purpose for which liberalised discretionary powers are granted to them.

The control of the head office over advances through periodical returns should relate only to irregular advances, the position of the other advances being examined during the course of the annual inspection of branches. (However, as already suggested by us earlier, advances to priority sectors should also be examined by the officials attached to special cells at regional offices during their visits to branches). Branches should send returns of irregular advances (including bills purchased and discounted) to the regional office/head office at monthly intervals. These returns should include advances granted by officials in excess of their discretionary powers or in excess of sanctioned limits/drawing power, those in respect of which instalments are in arrears and sticky or overdue advances. They should contain adequate details relating to the limit sanctioned, nature and purpose of advance, particulars of security held (*viz.*, valuation, insurance, margin maintained, etc.), nature of operations, as also the extent and period of irregularity and the steps taken or proposed to be taken to regularise the position.

Separate statements of irregular advances may be prepared for different types of advances, *i.e.*, cash credits, fixed loans, overdrafts, bills purchased, etc., and sent on different dates of the month so as to stagger the work at the branch and facilitate scrutiny at the head office. As regards the advances involved in litigation, a return may be sent at quarterly intervals. In addition to the return of irregular advances, banks may have to obtain statements of a special nature, *e.g.*, those required for watching compliance with directives relating to selective credit control issued by the Reserve Bank of India, as also other usual statements relating to sundry debtors and sundry creditors, miscellaneous expenses, cash position, etc.

SCRUTINY OF PERIODICAL RETURNS

14.4 The control returns should be scrutinised at the head office by the supervising staff and, where necessary, prompt follow-up action should be taken through the regional offices. Considering the importance of these returns, their scrutiny should not be left to the clerical staff. Delay in scrutiny of periodical returns tends to decrease the effectiveness of the control system and promptness is, therefore, essential in this regard. All advances indicating serious irregularities, which are likely to jeopardise the bank's interests, should be immediately brought to the notice of the top management.

TEST CHECK OF RETURNS BY INTERNAL AUDITORS

14.5 Internal Auditors, during their visits to branches, should make a test check of the statements sent to the head office/regional office in order to find out whether all relevant advances had been included in the concerned return and whether the various particulars had been mentioned therein correctly and fully. The head office should take stringent action against the branch officials when it is brought to its notice through inspection/audit, etc., that an irregular advance had been intentionally excluded from the return of irregular advances or where the operations in the relative account had been temporarily manipulated so as to avoid its being reported in the return.

CHAPTER 15

MISCELLANEOUS

15.1 Our suggestions on various miscellaneous matters are incorporated in this chapter.

RECEIPT OF CASH AND CHEQUES, ETC., FOR COLLECTION AT THE COUNTER

15.2 According to the procedure followed by several banks, the cashier receiving cash at the counter enters it in the Cashier's Receipt Book and initials the pay-in-slip and the counterfoil. These are thereafter sent by him to the authorised official who makes an entry in the Scroll Book and countersigns the pay-in-slip and the counterfoil. The pay-in-slip is thereafter sent to the concerned clerk in the Accounts Department for posting, etc., while the counterfoil is delivered to the customer as an acknowledgement of cash received. Several variations of this system are followed by different banks and a few of them have even abolished the Cash Scroll. Keeping in view the two objectives underlying the procedures relating to cash receipts, i.e., rendering of prompt service to customers and providing a built-in safeguard against misappropriation of funds, we recommend adoption of the following system at branches where the teller system has not been introduced.

The Scroll Book Writer should be a member of the Accounts Department and should sit near the cash counter. The pay-in-slip should be first presented to the Scroll Book Writer by the customer. He should receive the pay-in-slip, make an entry in the Scroll Book, number the pay-in-slip and pass it on to the receiving cashier who will then receive the cash from the customer, enter it in his Cash Receipt Book and deliver the counterfoil to the customer, after signing it, without its being countersigned by anyone else. Under this system, waiting time of the customer will be reduced and at the same time a record of cash received will be independently maintained by the Accounts Department for the purpose of tallying at the end of the day with the Cashier's Receipt Book.

It may also be possible for banks to use cash registering machines at bigger branches. These machines will mechanically record the receipt of cash on the pay-in-slips and on the counterfoils as also keep a record of progressive totals. Where these machines are introduced, it would be possible to abolish Cash Scrolls. Use of counting machines will also be helpful in expediting cash transactions.

We also recommend that cheques and other instruments tendered for collection should be allowed to be received by the bills clerk who should be authorised to sign the counterfoils singly after verifying that the instruments tendered are in accordance with the particulars noted in the pay-in-slip. Customers should, however, be notified to cross all instruments before tendering them for collection. After issuing the counterfoil, the clerk should affix the necessary special crossing and endorsement stamps and hand over the pay-in-slip and the instruments to the concerned officer who should also check the instruments with the pay-in-slip while signing the endorsements.

RECORD OF DENOMINATION OF CURRENCY NOTES

15.3 Particulars of denominations of currency notes are noted by customers on the pay-in-slips while tendering cash and these are checked by the receiving cashier. As regards the cash payments, the paying cashier notes the denominations of currency notes on the back of cheques, drafts, vouchers, etc. Some of the banks maintain, in addition, a record of denominations of currency notes in the Cash Receipt and Cash Payment Books. As this involves duplication, we feel that this practice is redundant and should be dispensed with. Further, for the sake of convenience, the particulars of currency notes may be noted on the face of the pay-in-slips instead of on the back by changing the form suitably.

DEPOSIT OF CASH BOXES IN THE VAULT

15.4 At branches having a number of cashiers, the head cashier distributes cash to various receiving and paying cashiers at the start of the day and receives back the closing cash after checking it with the receipt/payment books maintained by them. We suggest that individual cashiers may be required to maintain cash boxes which may be locked by them at the close of business every day and deposited in the vault without their contents being checked by the head cashier. The locked boxes would be delivered to the cashiers next morning. Cashiers should certify every day the amount of cash contained in the locked boxes and proper record of it should be maintained. Where considered necessary, a maximum limit may be fixed for cash thus kept in the cashiers' boxes. The contents of the boxes should be verified at periodical intervals on a surprise basis by head cashier/agent.

SAFEGUARDS AGAINST WRONGFUL ALTERATIONS IN CHEQUES, DRAFTS, ETC.

15.5 Banks are often subjected to frauds by chemical alteration of material particulars on cheques, drafts, etc., presented to them for payment. Such alterations are not visible to the naked eye and some of the banks, therefore, use ultra-violet ray equipment at their larger branches for examining cheques, etc., before paying them. Out of the 55 banks which have replied to the Banking Commission's question in this regard, 21 banks have

stated that they have introduced this system. While some of these banks examine all instruments presented for payment or for collection under the equipment, other restrict such examination to large cheques presented over the counter for cash payment. The protectograph machines (for writing of the drafts and mail transfers) are more commonly used as 44 out of 55 banks which replied to the question are using this machine. We recommend that increased use of ultra-violet ray equipment should be made by banks at their urban branches and they should also supply protectograph machines to all branches which are authorised to issue drafts.

USE OF REGIONAL LANGUAGES

15.6 Banks are increasingly spreading their activities to rural areas and a large proportion of their customers is not conversant with English. For spreading the banking habit amongst common people, it is necessary that bank officials are able to talk to them in their own language with sympathy, understanding and patience and the forms they are required to fill in and statements and letters sent to them are also in the local languages. We, therefore, recommend that a planned programme for use of regional languages for account opening forms, pay-in-slips, cheque books, pass books, statements of account, etc., should be adopted and implemented by banks, so that within a period of three years or so dealings with customers are carried out entirely in the languages they fully understand. In order to make banking easily understood by the public, audio-visual publicity through exhibition of documentaries and publicity through pamphlets in regional languages, portraying the advantages of carrying out monetary transactions through the medium of banks, would be immensely helpful. We further feel that Government departments, local bodies, educational institutions, public utility concerns, public sector undertakings, etc., should encourage the use of cheques in their financial transactions with the public, where necessary, by suitably amending their rules and regulations.

HALF-YEARLY CLOSING OF ACCOUNTS

15.7 Apart from the statutory closing of accounts at the end of December, some of the banks also close their accounts at the end of June each year and prepare the balance sheet and profit and loss account. Half-yearly closing enables banks to get an idea of the position of profit and to declare an interim dividend. This objective has lost its significance as the major banks in the country have been nationalised. We, therefore, recommend that banks may discontinue the practice of half-yearly closing of accounts as it entails considerable labour without commensurate benefits.

FORMS OF IMPORT LETTER OF CREDIT AND MAIL TRANSFER RECEIPT

15.8 The question of standardising the form of import letter of credit may be considered by the Exchange Control Department of the Reserve

Bank of India in consultation with the Foreign Exchange Dealers' Association and in keeping with the requirements of importers. It has been suggested to us that the preparation of monthly statement of import letters of credit opened, for submission to the Reserve Bank of India, entails considerable labour on the part of banks as detailed particulars of description of goods, country of origin of goods, name and address of importer, etc., are required to be given in it. It has been further suggested that this labour could be saved to a considerable extent if the banks were allowed to send copies of letters of credit opened, with a covering list indicating only the distinctive numbers of letters of credit and their amounts instead of the monthly statement. With this arrangement and with the standardisation of the form of letter of credit, the processing of the information could be done with mechanical help at the Reserve Bank. The Reserve Bank may consider the feasibility of this suggestion.

The Foreign Exchange Dealers' Association may consider standardising the form of mail transfer receipts. The standardisation will simplify the work of listing and sorting the mail transfer receipts while presenting them for collection through clearing.

REVIEW OF PROCEDURES

15.9 All progressive institutions recognise the need for maintaining a department or a cell for reviewing the methods and forms and suggesting improvements from the point of view of reducing the operating costs as well as improving service to customers. The need to introduce schemes for obtaining suggestions from employees for improving methods and procedures is also well recognised as, apart from bringing forth good and practical suggestions, the scheme also creates a sense of participation in the employees. It is observed from the replies received from commercial banks to the questionnaire issued by the Banking Commission that, while the banks in the public sector have generally created separate O. & M. Departments, the Indian banks in the private sector have not so far done so. The foreign banks do not feel the need to have a separate wing for the purpose in India as they follow the procedures prescribed by their head offices abroad. It is also observed that a regular suggestion scheme has been introduced only by some of the banks.

We, therefore, recommend that the Indian banks which have not so far established a separate O. & M. Department may establish it as early as possible. However, in case any of the small banks finds it difficult to establish a full-fledged department for the purpose, in view of the cost involved, it should train one or two of its officials in O. & M. work. These officials will be able to attend to O. & M. aspects of the bank's working, in addition to other normal duties, where necessary. We also recommend that the heads of O. & M. Department of different banks should meet periodically, say once every half-

year for exchanging information regarding the studies made by them. The Reserve Bank of India may take the initiative in the matter. Further, the banks which have not so far introduced a suggestion scheme should do so at an early date.

COMPLAINTS FROM PUBLIC

15.10 Complaints received by banks mainly relate to delays in collection of bills and cheques, in encashment of cheques and issue of drafts, in despatch of statements of account and pass books, in giving effect to standing instructions and to discourteous behaviour of the staff. With the increase in advances to priority sectors, a number of complaints alleging favouritism and corruption have also started pouring in and vigilance cells have been created to deal with them. The majority of banks has expressed in reply to the questionnaire issued by the Banking Commission that there has been a progressive deterioration in the standard of service. According to them, the main reason for this state of affairs is the enormous expansion of banks' services in recent years coupled with the paucity of trained personnel as also the lack of proper understanding between the employees and managements of banks. These problems can be solved by instituting training programmes, man-power planning on a scientific basis and taking measures to enthuse the staff by creating a sense of participation and belonging in them. While we do not propose to enter into detailed discussion of these matters which are beyond the scope of the terms of reference of our Study Group, we consider it necessary to make a few suggestions for expeditious disposal of complaints from the public. It seems desirable to us that complaint-cum-suggestion boxes should be provided at all branches of banks for use of the public. Further, regional managers or development officers attached to regional offices, on their visit to the branches, should spare some time to hear the grievances and suggestions of the local constituents. For this purpose, the public should be advised of the tour programme of the official concerned, by displaying a suitable announcement on the notice board. The date and time when he would welcome members of the public for discussion should also be indicated in the notice.

PREMISES AND LAY OUT

15.11 Due to the rapid growth of banking in recent years, the old premises in several cases are found to be inadequate. The renovation or extension of old buildings is often not easy. As the branch grows, the old records also get piled up. This situation causes congestion and overcrowding with consequent deterioration in customer service and staff efficiency. Too big branches also create difficulties about proper organisation and management, balancing of books in time and give rise to complaints from the public. Whenever possible, banks should try to shift a portion of the work at such a

branch to new premises in the same locality by opening another branch. For housing new branches, particularly in the rural areas where suitable premises on rent are not available, it would be preferable for banks to encourage construction of buildings by advancing money to persons owning suitable land instead of constructing the buildings themselves which would result in locking up of their funds. The advance may be recovered in instalments out of rent payable in respect of long-term lease of the constructed building. Adequate attention to matters such as lay out, colour scheme, construction of modern counters, pleasing lighting arrangements, decor, staff and customer amenities should be paid while planning new buildings. In some of the advanced countries, particularly in U.S.A., construction of a bank building has developed into a separate branch of architectural science but this aspect does not seem to have received proper attention in India as banking has not yet been fully recognised as an activity of marketing services. While designing a bank building, the problems of special categories of customers such as pensioners and women should be kept in view and discussed with the architects. For instance, the location of a counter for payment of pensions should be on the ground floor almost at the street level or to reach which it is not necessary to climb a number of steps ; in branches which are visited by a number of women customers, facilities of separate cloak rooms should be provided. The security aspect should of course be borne in mind.

The problem of space for preservation of records is bound to become more acute with the present pace of development of banking. Banks are already returning paid cheques to customers who desire to have them after obtaining a balance confirmation and a formal undertaking from them to the effect that they shall retain the returned paid cheques for a period of eight years and produce them before the Income-tax Officer whenever called upon to do so. We recommend that the question of making a suitable legal provision permitting banks to destroy cheques, ledgers and other records after a lapse of specified periods should be examined. Banks may also consider the feasibility of micro filming important records before their destruction, taking into account the cost aspect.

Proper office lay out, which ensures smooth flow of papers, is an important factor in rendering prompt service to customers. It is necessary to ensure that the work flow is speedy and help of intermediary personnel to move papers is minimised. For preparing a 'floor plan lay out', a study of the routine at a branch or a department/section has to be made, from time and motion and flow angles, and a drawing to scale of locations of all desks, cabinets, machinery and equipment has to be prepared. The study will indicate the proper positions in which the employees and officers should be seated and the ledgers, machines and records should be kept, so that papers become easily accessible and the time of employees is not wasted in moving from place to place. For instance, if the counters of the ledger keeper and the concerned cashier are in close proximity and the passing official is seated just behind them, the

cheques, pay-in-slips, etc., can be handed over by one official to another without getting up from his seat or waiting for the services of a messenger. Where such a seating arrangement is not possible, a sloping passage can be provided connecting their seats so that the papers slide down from the ledger keeper to the tray provided at the official's end, who can after passing the instrument for payment, hand it over to the cashier sitting nearby. We, therefore, recommend that banks should take steps to improve the lay out of their offices in order to enhance the efficiency of the staff as also for improving customer service.

WORKING HOURS OF BANKS

15.12 In response to the question asked by the Banking Commission inviting views of commercial banks on the desirability of closure on Saturdays, diverse views have been expressed. The view of the majority of banks is for retaining the status quo on the ground that the banking habit is yet to develop fully and any change at this juncture may have the effect of crippling it. Further, the question of repercussions of any such change on the working of other businesses and industries has also to be kept in view. Some of the banks, however, are in favour of closure on Saturdays as the time spent by employees in coming to office and going back to their residences particularly in big cities, is not commensurate with the amount of work put in by them during office hours. They also feel that the business community is not likely to be put to much inconvenience, as, even at present, there is no special clearing for return of cheques on Saturdays.

Other suggestions made by banks are that different banks should remain closed on different days of the week ; full holidays should be declared on one or two Saturdays every month, other Saturdays being full working days ; Sunday should be a working day and one of the other days should be a holiday ; and, Saturdays, should be full working days instead of half working days as at present.

Having taken into consideration these different views, we recommend that, to begin with and on an experimental basis, administrative offices of banks may remain fully closed on Saturdays and, to compensate for the loss of man-hours, the working hours on other week days should be suitably enhanced. The question of introducing similar change in the bank offices dealing with the public may be considered later. We also recommend that, wherever feasible, working hours in residential areas of urban centres may be in the mornings and evenings to suit the convenience of the clientele. Our suggestions regarding working hours at rural branches have already been made in Chapter 8.

CHAPTER 16

SUMMARY OF RECOMMENDATIONS

Various recommendations made by us in earlier chapters are summarised below. Figures in brackets indicate the chapter number and paragraph number in which the relative recommendation has been incorporated.

DEPOSITS

16.1 The statements of account and pass books should be written neatly, legibly and accurately and furnished to the customers promptly. Adequate arrangements should also be made to ensure prompt compliance with the customers' stop payment and standing instructions. (3.1)

16.2 The teller system should be adopted in all banks at all important branches for encashment of cheques and receipt of cash for credit to accounts. Banks may use their discretion as regards the type of the teller system, the nature of accounts to which it should be made applicable as well as in regard to the maximum limit for receipt and payment of cash under the system. (3.2)

16.3 First line supervisors should be permitted to pass cheques for payment in cash upto at least Rs. 5,000. Ledger keepers should also be given powers to pass cheques for small amounts depending upon the size of the branch and the experience of the concerned staff. They should be entrusted with authority to issue cheque books against production of requisition slips to the depositors who call at the bank personally. (3.3)

16.4 Whenever necessary, supervising officers should go to ledger keepers for passing cheques instead of waiting for the papers, ledgers or registers to be brought to them by messengers. (3.3)

16.5 The system of maintaining accounts in an alphabetical order should be replaced by a numerical system. The number allotted to each account holder may be so devised as to indicate some information about him, e.g., profession, constitution (individual, firm, company), etc., by adding suitable prefix to his account number. To facilitate location of accounts, card indices should be maintained both in alphabetical as well as numerical order and, where necessary, rotating equipment should be used for tracing accounts. (3.4)

16.6 Mechanisation should be introduced by banks, especially at larger branches, by adopting a phased programme on a planned basis and

by taking the employees' unions into confidence. This will enable the staff doing work involving a lot of drudgery to do work of a higher order and enable their abilities to be used for more fruitful purpose. The Government on its part should also take positive steps to help the banks in getting over the difficulties such as non-availability of machines and opposition, if any, of the staff. (3.5)

16.7 Banks should exercise adequate care and take concerted action while buying machines to avoid their underutilisation and their becoming obsolete due to change in procedures and other reasons. Indigenous manufacturers should be encouraged to produce machines to suit the requirements of Indian banking. (3.5)

16.8 Each bank should devise a system of data processing to serve both the operational requirements and the requirements in respect of economic information of the bank itself as also of the Reserve Bank and the Government. (3.5)

16.9 Issue of pass books should be discontinued in respect of savings bank account holders who are allowed to make withdrawals by cheques and instead statements of account should be supplied to them, say at bimonthly intervals. The banks which still issue pass books to the current account depositors should switch over to the system of furnishing statements of account. (3.6)

16.10. The practice of obtaining balance confirmations for credit balances in deposit accounts should be discontinued. The statements of account furnished to the depositors should contain a stipulation that the items and the balances shown therein should be verified by the concerned depositor and the bank notified of any discrepancy within a specified time, failing which the last balances shown would be presumed as correct. The branch agent should, however, be allowed discretion to obtain confirmations in particular accounts where he considers them necessary in the light of his personal knowledge about the depositors and operations in their accounts. Besides, the Internal Auditor, during the course of audit, should request a few depositors, selected at random, to confirm their balances and send the confirmations direct to him. (3.7)

16.11 Banks should issue cheque books with crossing printed thereon to the customers who require them. Such customers should be provided with two cheque books simultaneously—a crossed one and an open one—printed in different colours for easy identification. A similar system should be followed in respect of bank drafts. (3.8)

16.12 Banks may consider the feasibility of making payment of interest on fixed deposits on the expiry of every six months from the date of deposit instead of paying it at the end of each calendar half-year. (3.9)

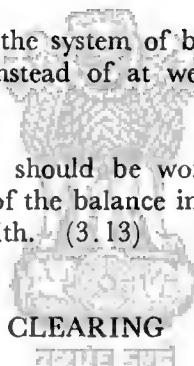
16.13 Intricate and detailed calculations may not be resorted to for arriving at the exact amount of interest payable on various types of deposits at the end of each month for the purpose of making provision therefor. An approximate provision may be made on the basis of average rate of interest paid during the previous half-year applied on the daily balances in the General Ledger. (3.10)

16.14 Banks should take expeditious steps to encourage the members of the staff and officers to learn local languages and for dispensing with the practice of obtaining letters of indemnity for vernacular signatures of the depositors and of transcribing and attesting such signatures. (3.11)

16.15 Banks should make arrangements for keeping on record photographs of illiterate depositors for facilitating their identification. The branches at places where the facility for obtaining photographs is not available, should be provided with cameras and the branch officials given some training in taking photographs. (3.12)

16.16 Banks may adopt the system of balancing the current account ledgers at monthly intervals instead of at weekly or fortnightly intervals. (3.13)

16.17 While summations should be worked out on ledger folios in order to verify the correctness of the balance in the account, their periodical balancing may be dispensed with. (3.13)



16.18 The feasibility of opening clearing houses at places with population of more than 50,000 which are served by more than 3 or 4 banks should be examined keeping in view the factors such as the expenses involved, the problem of space and personnel, the number of bank accounts and the average number of instruments that would pass through clearing. The State Bank of India should take a lead in the matter as it or its subsidiaries manage the clearing houses at places where the Reserve Bank of India has no office. At centres where the State Bank of India is not established but other banks or their customers feel a need for establishment of a clearing house, the initiative should be taken by the banks themselves, preferably by the lead bank. (4.1)

16.19 In order to reduce the work-load on the clearing houses and main offices of banks in metropolitan cities and with a view to ensuring quicker clearance of cheques, the feasibility of opening sub-clearing houses should be expeditiously considered by the Indian Banks' Association. The location of sub-clearing houses should depend upon the concentration of branches, the communication facilities and volume and pattern of payment flows. (4.1)

16.20 Banks which have not so far introduced the system of 'home' clearing in metropolitan cities should do so, so that cheques tendered by an account holder for credit of his account and drawn on another local branch of the same bank are realised expeditiously. (4.1)

16.21 The question of admitting non-scheduled banks and co-operative banks as full-fledged members of clearing houses as also liberalising the clearing house rules regarding the number of instruments and banks, the terms and conditions of membership, etc., should be examined by the Reserve Bank of India and the State Bank of India. (4.2)

16.22 The measures relating to the simplification of clearing procedures are being considered by the Indian Banks' Association with particular reference to the city of Bombay. Special problems relating to the clearing of cheques in other large centres should also receive similar attention. (4.3)

16.23 Steps should be taken to gradually discontinue the Outward Clearing Register. Customers should be required to note the details, now entered in the register, on the reverse of the pay-in-slips. (4.3)

16.24 In order to facilitate tracing of credits and debits and matching them at a later stage, cheques and pay-in-slips should be appropriately numbered and the numbers of the accounts to which credits are being given should be recorded on the reverse of the cheques. (4.3)

16.25 The feasibility of introducing the system of 'Flying Squad' for collecting the cheques for the day's clearing may be considered by banks having a large number of branches in big cities. (4.3)

16.26 Use of cheque sorting machines should be made at major branches of banks for expediting clearing work and minimising the occurrence of clearing differences. (4.4)

COLLECTION OF OUTSTATION CHEQUES, BILLS AND OTHER INSTRUMENTS

16.27 The Indian Banks' Association should take expeditious steps to introduce courier system for transmitting outstation bills, cheques, etc., on behalf of member banks from one centre to another by night air mail. Government should also render such help, as may be necessary, in resolving the legal and technical difficulties which the Association might encounter. After the scheme proves successful, the feasibility of extending it to other cities connected by air should be examined by the Association. Alternatively, the Postal Department itself may consider organising a courier system by making appropriate arrangements. It may recover from the banks the costs incurred by it on the basis of an agreed formula. (5.2)

16.28 Banks should issue instructions to their branches that the cheques and drafts sent by them to outstation branches for collection, through the courier system, should be considered as realised and proceeds credited to the customers' accounts if they are not returned unpaid or information regarding their dishonour is not received from the collecting branches within seven clear working days. In order to minimise the risk involved, non-payment advices should be sent through the courier system and in the case of instruments for large amounts non-payment may also be advised by telegram/telex. (5.2)

16.29 Even as regards the cheques and drafts sent for collection to outstation centres which are not covered by the courier system, credit to the relative customers' accounts should be afforded after lapse of specified periods even if the information regarding the fate of the instrument is not received from the collecting branch. Further, banks may progressively adopt the system of purchase/discount of cheques and bills in replacement of the collection system. At large towns where the collection business is sizeable, banks may consider opening 'collection branches' in suitable localities exclusively for this business. (5.2)

16.30 Banks should introduce manifold system for collection of bills in order to avoid duplication of work involved in writing the same particulars in the bills registers, covering schedules, advices to parties, etc. (5.3)

16.31 The Despatch Department should work, where necessary, on a shift basis so that covering schedules of bills, realisation advices, etc., which are ready for despatch in the afternoon can be sorted out and sent in the evening on the same day. The documents to be sent by registered post should be positively despatched at least on the next day. Branches doing sizeable business should use addressograph, auto-weigh and franking machines in order to save labour and time involved in manual work. (5.4)

16.32 Particulars of inward bills, cheques, etc., received for collection need not be entered in the Dak Receipt Register. After the covering schedules and the attached documents are sorted by the official receiving the dak, they should be handed over against acknowledgement to the official of the Bills Department/Deposit Accounts Department by entering their total number in a pass book. (5.4)

16.33 Toning up of the Bills and Despatch Departments so as to eliminate the errors in preparing covering schedules, realisation advices, writing the addresses, etc., will go a long way in minimising the complaints and rendering expeditious and satisfactory service to customers. (5.4)

16.34 The practice of passing contra entries daily in the books in respect of bills under collection may be discontinued. (5.5)

REMITTANCES

16.35 First line supervisors, who are normally promoted to that position after adequate experience in the capacity of a clerk or a trainee officer, should be allowed to sign drafts singly at least upto Rs. 5,000. (6.3)

16.36 Manifold draft requisition form with carbon attached should be introduced in order to reduce the waiting time of customers. (6.4)

16.37 In order to popularise the drafts as a mode of remittances as also to inculcate the cheque habit amongst the public, it is necessary to dispense with the formality of identification in respect of instruments for small amounts, except in cases where there are reasonable grounds to suspect that the presenter is not entitled to receive payment. The legal aspects of the question should, therefore, be examined carefully and the provisions of law suitably amended, if necessary. (6.5)

16.38 Such of the non-nationalised banks as are willing to participate in the scheme for inter-bank drawings and inter-bank collections (which is being considered by the Public Sector banks) may be permitted to do so to the extent possible. (6.6)

16.39 An independent agency with the collaboration of banks, embodying the principles of Giro, may be created to clear the transactions relating to transfer of funds within the metropolitan cities of Bombay, Calcutta, Delhi and Madras and in between these cities in the first instance. The agency may also undertake issue of travellers' cheques and drafts and clearance of transactions relating to remittance of funds by a non-account holder to an account holder and *vice versa*. (6.7)

ADVANCES—GENERAL

16.40 In order to expedite decision making and to exercise effective supervision and control over the working of the branches, regional offices should be created or reorganised by banks. The number of branches under the jurisdiction of a regional office in the mofussil may be 25 to 50 depending upon communication facilities, nature and volume of business conducted, contemplated expansion in the network of branches, etc. In the metropolitan areas it may be possible for a regional office to handle a larger number of branches. The region should comprise a contiguous area, no branch being very far away from the regional office. (7.2)

16.41 To ensure that regional offices do not become one more tier in the administrative set up, they should be granted adequate powers not only for sanction of advances but also in regard to administrative matters. They should be placed under the charge of experienced and capable senior officers. (7.2)

16.42 Regional offices should maintain specialised cells on functional basis with adequate trained staff for assessment of advance proposals from priority sectors and for supervision and review of advances granted to them. They should also conduct and arrange for surveys, research and pilot projects for developmental activities in respect of deposit mobilisation, geographical expansion and grant of credit to priority sectors. They should further maintain a close contact with the branches and review their working periodically. (7.2)

16.43 The regional manager should not be overburdened with routine work so that he may be able to discharge his supervisory functions effectively as also to pay visits to the branches under his charge at least once in a quarter. (7.2)

16.44 The head office should arrange to carry out periodically thorough inspections of the regional offices in order to ensure that they are discharging their functions effectively and efficiently. (7.2)

16.45 Delegation of discretionary powers to branch agents and regional offices to sanction advances to small borrowers should be liberalised. While vesting such powers, the head office should, however, prescribe overall ceiling on the total amount of credit that could be advanced at each of the branches to various categories of borrowers, in order to ensure equitable distribution of credit in relation to the bank's total available resources and in the context of liquidity requirements. Delegation of authority should be reviewed at least once in two to three years and discretionary powers should be varied, if necessary, according to requirements. (7.3)

16.46 The provisions of section 292 of the Companies Act, 1956 may be suitably amended so that in the case of banking companies, the Board of Directors is enabled to authorise the Chief Executive Officer or a committee of directors to exercise the powers of the Board in regard to specifying the total amount upto which loans may be made by the delegates, the purposes for which the loans may be made and the maximum amount of loan which may be made for each such purpose in individual cases. (7.3)

16.47 A quarterly scrutiny of the advances to priority sectors granted by branch agents should be carried out by a set of roving officers attached to the functional cells at regional offices. After some time, when the agents have gained sufficient experience, the frequency of the scrutiny may be suitably reduced. Branches should be required to maintain a register recording the receipt of loan applications (whether made orally or in writing) and their disposal. The roving officers should examine this register in order to find out whether there has been any undue delay or wrongful refusal of credit facilities. (7.3)

16.48 While exemplary punishment should be awarded to the agents who are found guilty of deliberate misuse of powers, gross negligence, dishonesty or favouritism in order to curb any tendency to abuse the powers vested in them, the agents should be protected even though an advance becomes difficult of recovery if it was granted in the normal course without *mala fide* intent. (7.3)

16.49 The application form in respect of advances to small borrowers may be bifurcated into two parts —

(i) application form to be filled in and signed by the borrower containing essential information of a simple nature relating to his bio-data and credit requirements, and

(ii) interview form in which additional information obtained by questioning the applicant and perusing his books of account and other relevant papers may be recorded by the bank's officer.

While the application form may be common for all small advances, separate interview forms may be prescribed for different types of borrowers such as small scale industries, agriculturists, road transport operators, service unit owners, retail traders, etc. (7.4)

16.50 Detailed credit reports need not be maintained on borrowers who have been sanctioned the following types of advances :—

(i) temporary overdrafts granted under the discretionary powers of the branch agent ;

(ii) advances against deposits with the bank and surrender value of life insurance policies ;

(iii) advances upto Rs. 5 lakhs against Government and other trustee securities ;

(iv) advances upto Rs. 50,000 against readily marketable shares and debenture ; and

(v) secured advances to agriculturists upto Rs. 10,000, to small scale industries upto Rs. 25,000 and to other small borrowers upto Rs. 10,000.

Banks should, however, ensure that the borrowers are properly introduced and also satisfy themselves regarding the viability of the project, purpose of the advance and need-based requirements before sanctioning the credit limits to them. (7.5)

16.51 At the time of renewal of an advance, a fresh credit report may be prepared only if there have been any significant changes in the means and

standing of the borrower ; in other cases a dated remark may merely be recorded on the earlier credit report stating that the information has been verified and the party's position substantially remains unchanged or briefly indicating the minor changes that have occurred. A suitable remark to the same effect should also be made on the renewal proposal sent to the regional/ head office. However, a fresh credit report should be prepared at least once in two years. (7.5)

16.52 Branches should not be required to send copies of credit reports to the head/regional office on borrowers to whom advances have been sanctioned under the agent's discretionary powers. (7.5)

16.53 The personal liabilities and assets of proprietors and partners of business concerns should be taken into consideration while assessing their creditworthiness. (7.5)

16.54 The Reserve Bank of India may examine the feasibility of establishing a Credit Intelligence Bureau for compiling and furnishing credit information to various financial institutions in the country by enlarging the functions of the Credit Information Bureau or by establishing a separate agency for the purpose. (7.6)

16.55 Banks should, where necessary, suitably revise the advance proposal form which should contain adequate information regarding the volume and turnover of the borrower's business, sales and purchases on cash and credit basis, current assets and liabilities, extent of his own resources, seasonal trends and other relevant details justifying his credit requirements from the bank under different facilities. (7.7)

16.56 The credit facilities to a borrower should be so arranged that the cycle of business from the purchase of raw materials to the receipt of sale proceeds is not hindered for lack of finance. The head office/regional office should also give discretion, to some extent, to the branch agent to interchange the limits according to requirements from time to time. (7.7)

16.57 If a constituent has been borrowing from other sources for his business purposes, the bank should endeavour to persuade him to repay such borrowings and deal exclusively with it for all his credit requirements. If necessary, finance to repay existing borrowings from other sources should be made available, provided such borrowings were availed of for business purposes. Where the requirements of a borrower are large, the principle of one bank one borrower can, however, be modified by a consortium of banks entering into participation arrangements or by mutual arrangement between banks. Exception to the principle of one bank one borrower may also be allowed in the case of advances availed of from term financing institutions, factories of the same concern situated at different places, etc. (7.7)

16.58 The Agent and/or other senior officials should pay frequent visits to the place of business of the borrowers accommodated for manufacturing, production or trading activities, for discussion with them on matters such as trend of business, difficulties encountered in dealing with the branch and measures to solve them. (7.8)

FINANCING OF AGRICULTURE

16.59 The agents of the rural branches should be vested with discretionary powers to sanction advances upto Rs. 3,000 per borrower. The bulk of advances in excess of this amount should be allowed to be granted by regional offices and reference to the head office should be restricted to the proposals in regard to plantations, large scale farming, land development and irrigation schemes, etc. (8.2)

16.60 Regional offices of banks should issue guidelines to branches in their respective areas indicating the scale of finance applicable to different types of crops by collecting information from the studies already made by other institutions and also after consulting officials who have expert knowledge of the subject. They may also consider financing such studies by local universities, colleges or other expert bodies. (8.3)

16.61 The total amount sanctioned to the farmers should be disbursed in instalments in accordance with their needs for various agricultural operations. The number of instalments should not, however, be too many (generally not exceeding three) as the agriculturist is busy during the season and he would find it difficult to visit the bank often to collect the loan instalments. (8.4)

16.62 As far as possible, banks should disburse credit by making direct payments to the suppliers of inputs, taking care to see that finance in respect of a particular input is commensurate with the need-based requirements of the farmer. To avoid widespread misuse of the facility, any instance of wrongful utilisation which comes to notice during the scrutiny of roving officers or branch officials or as a result of investigation of complaints received should be strictly dealt with by taking appropriate action against the relative dealer and the borrower. (8.4)

16.63 Expeditious steps should be taken, in the light of the suggestions made by the Talwar Committee, to ensure that commercial banks are not made to suffer from any direct or indirect legal disabilities which co-operative banks are not subjected to and also to ensure that all the privileges and concessions enjoyed by these banks are extended to commercial banks. (8.5)

16.64 Frequent visits should be paid to the farms of borrowers by the branch officials as well as by the officers attached to the agricultural cells at

regional offices. The purpose of the visit should be to ascertain the progress of cultivation, verification of security charged to the bank and of implements purchased with the use of bank's finance and to find out whether the finance already granted has been properly utilised as also to assess the quantum of finance needed for further agricultural operations. The branch agent should, as far as possible, ensure that such verification has been carried out before making available to the borrowers further drawings from their accounts in accordance with the phased programme for grant of credit. The branch officials have also to keep a watch on the marketing arrangements made by the farmer for disposal of his goods in order to ensure that the advance is repaid when the crop, for raising of which finance was made available by the bank, is sold by him. (8.6)

16.65 The area served by a village branch should normally be restricted to a radius of about 15 to 20 kilometers from the branch depending upon the nature of available communication and conveyance facilities. Exceptions may, however, have to be made to this general rule in suitable cases, particularly in respect of underbanked regions until banking facilities are adequately spread out. (8.7)

16.66 As far as possible, local persons with requisite minimum qualifications should be recruited at the rural branches. Further, to the extent possible, part-time, temporary or seasonal staff may be employed at such branches. (8.7)

16.67 The branches of banks at rural and *mandi* centres should be kept open in the evening, if necessary by suitably reducing the working hours in the day time, to provide convenience to the villagers. The extension of the facility of mobile banks can also be helpful in this regard. (8.7)

FINANCING OF SMALL SCALE INDUSTRIES

16.68 Branch agents of small urban branches should be vested with discretionary powers to sanction working capital advances to small scale industries at least to the extent of Rs. 10,000 against hypothecation of stocks, Rs. 25,000 against pledge of stocks, Rs. 2,500 on a clean basis and Rs. 10,000 against documentary bills. Powers of branch agents at bigger branches should be fixed suitably, taking into account the type of business at the branch and the experience and ability of the concerned officials. The bulk of the credit limits in excess of the discretionary powers of branch agents should be sanctioned by regional offices. (9.2)

16.69 Relaxations from usual formalities, such as grant of hypothecation advances or *mandi* type advances in place of factory type advances, release of pledged goods against trust receipts, low margins on the basis of the ability of the borrowing concerns to provide them and valuation of goods

on a realistic basis should be extended to deserving small scale industries. Financial guarantees to a reasonable extent may be given on behalf of small scale industries to enable them to secure contracts for supply of goods, carry out works undertaken, etc. (9.3)

16.70 In respect of working capital advances to small scale industries technical reports from consultancy firms or institutions need not be insisted upon as a matter of course. (9.4)

16.71 Banks need not insist upon, as a matter of course, mortgage of immovable property and hypothecation of machinery as collateral security for working capital advances to small scale industries. (9.5)

16.72 Visits to the factories of the borrowing concerns should be paid by the branch officials at least once a month and, besides, the technical staff at the regional offices should visit the factories at periodical intervals. As the Agents or the Accountants of branches having a large number of small scale industries accounts will not have sufficient time at their disposal to pay monthly visits, banks should appoint supervisors for the purpose at such branches. (9.6)

16.73 A separate supplementary agency, as envisaged by the Thakkar Committee, should be created for giving guidance and rendering technical and management consultancy services to the borrowers rather than the banks themselves undertaking this function. Banks may, however, make available the services of their technical staff in their spare time to the borrowing units—on their request and on an informal basis — for consultation on urgent problems. (9.7)

FINANCING OF EXPORTS

16.74 The number of centres where banks provide intensive export finance facilities are limited and should, therefore, be increased. (10.2)

16.75 Whenever documents (drawn under a letter of credit), tendered by the exporter for discounting, are sent by an inland branch to a branch authorised to transact foreign exchange business, the former branch should obtain indemnity from the exporter against any discrepancies in order to avoid protracted correspondence between the two branches. (10.3)

16.76 To eliminate the delay involved in sending bills of exchange to the stamp office for being stamped before execution, banks should be allowed to stock stamps and instal special franking machines in larger offices, if necessary, by amending the Stamp Acts suitably. (10.3)

16.77 There is apparently a need for expansion of clean packing credit facilities. The grant of such facilities should depend upon the creditworthiness

ness of the exporter, his past dealings and past export performance. Constant and strict vigilance would also be necessary to ensure proper end-use of such packing credit facilities. (10.4)

16.78 An Inter-Bank Export Information Centre may be set up to collect and disseminate up-to-date export information which would be of general and practical interest to all banks and would benefit small exporters who have neither contacts nor financial means to explore foreign markets. (10.5)

16.79 In order to provide facilities to the customers and guidance to the branch agents, banks should post at least one officer with adequate knowledge of foreign exchange procedures at the regional offices which do not have full-fledged foreign exchange departments. These officers should, whenever necessary, visit the branches within the region for guiding the agents and other staff in handling foreign exchange business as well as for attending to developmental activities and for giving assistance to the customers in respect of their foreign trade problems. (10.6)

FINANCING OF OTHER SMALL BORROWERS

16.80 Branch agents of small branches should be authorised to grant advances to small borrowers upto at least Rs. 5,000 on secured and Rs. 2,500 on clean basis without reference to the regional office or the head office. The powers of the agents of bigger branches should be suitably fixed at higher levels. (11.2)

16.81 The feasibility of creating a suitable machinery for registration of charge on movables, with a simple and inexpensive procedure for its verification, should be examined from legal as well as practical angles. (11.3)

16.82 Banks may insist upon guarantees of third parties in respect of advances to small borrowers only when there are reasonable doubts about the repaying capacity of the borrower. (11.4)

16.83 Branch officials should pay a visit to the borrowers' place of business, even in cases where clean advances have been granted, at least once a quarter, in order to keep a constant watch on the condition of their business. (11.5)

16.84 It should be ensured that the formalities prescribed regarding the submission of stock statements, maintenance of stock registers, etc., do not become irksome to small borrowers who are not in a position to maintain adequate staff for the purpose. (11.5)

16.85 Banks may introduce night safe facility at suitable centres to enable small borrowers to deposit their daily cash collections for credit to their accounts on the following day. (11.6)

INTER-BRANCH ACCOUNTS

16.86 Of the three inter-branch accounting systems, *viz.*, mutual accounting system, centralised-cum-regional accounting system and centralised accounting system, the last named appears to be the most suitable as, besides ensuring effective control, it is also more amenable to mechanisation. However, inter-branch transactions between branches situated in the same city may be passed through the accounts maintained by them with the local main office instead of through the head office account. (12.2)

16.87 In order to avoid passing of incorrect entries at the responding branch, the originating branch should take care to ensure that the covering schedules, remittance or realisation advices and daily statements of head office account are neat, clear and accurate and are despatched promptly. (12.3)

16.88 To eliminate the confusion caused by the similarity in names, code numbers should be allotted to branches which should be required to write the number, in addition to the name of the branch, on all advices, daily statements of head office account, remittance schedules, etc. (12.3)

16.89 The number of entries in inter-branch account can be reduced considerably by passing consolidated debit and credit entries in respect of each branch according to the categories of transactions instead of passing separate entries for each draft issued or each bill realised or for other similar transactions. (12.4)

16.90 In order to facilitate matching of entries at the Central Accounts Section, daily transactions relating to inter-branch account should be grouped at branches under specified categories and schedules of different colours should be prepared for each category of entries, using the same colour for schedules of debit and credit transactions of similar type. The schedules should be sent to head office together with the statement of head office account which should contain totals of debit and credit entries detailed in the schedules, besides the opening and closing balances. (12.5)

16.91 Telegram and postage charges, etc., incurred in connection with the collection of bills should be borne by the branch which actually incurs them. To avoid protracted correspondence and disputes, such charges should not be debited to the branch from which the bill was received for collection. (12.6)

16.92 The outstanding entries should be promptly followed up and the reasons for their remaining outstanding should be ascertained. The form used by the Central Accounts Section for obtaining comments of a branch in respect of long outstanding entries, besides detailing the parti-

culars of relative entries, should contain alternative replies expected from the branch in the lower portion separated by perforation. (12.7)

16.93 The reasons for which the originating debit entries and reversal entries have been passed should be suitably explained by the branches while reporting them to the Central Accounts Section in the daily statements. The latter should examine the entries carefully. (12.8)

16.94 The long outstanding entries for large amounts, say above Rs. 10,000, should be immediately brought to the notice of a senior executive who should decide whether any special probe is necessary in regard to any particular transaction. (12.8)

16.95 The Internal Auditor should scrutinize the long outstanding entries pertaining to the branch during the course of his audit. Besides, he should make a sample check of the entries in the head office account at the branch. It may be useful in the case of banks having a large number of branches to select a few branches, on the basis of a properly devised sample, for examination of all transactions pertaining to say a week or a fortnight. (12.8)

INTERNAL AUDIT AND INSPECTION

16.96 Inspection staff should normally consist of Internal Auditors, Branch Inspectors and Godown Inspectors. However, as it may not be convenient for small banks to maintain inspection staff of three categories, the Branch Inspectors appointed by them may also carry out internal audit and godown inspection. (13.2)

16.97 While the Internal Auditors may examine documents, operations, etc., in respect of all advances to agriculturists, they may verify securities only in respect of selected accounts on random sampling basis. It would, however, be desirable to verify all securities held in accounts which are grossly out of order or in respect of which complaints have been received. (13.2)

16.98 The Inspection and Audit Department should be directly responsible to the Chief Executive Officer of the bank. For the sake of convenience and in the interest of economy, members of the inspection staff may be posted at different regional offices but they should be under the direct administrative charge of the head office and the regional managers should have no control over their promotions, transfers, increments, leave, etc., during the period they are entrusted with inspection duty. (13.3)

16.99 In view of the nature of their duties, Internal Auditors should have a thorough knowledge of the procedures and at least five years' experience of handling different types of work in responsible capacities. Banks should

institute suitable recruitment policies and training programmes to achieve this objective. (13.3)

16.100 Branch Inspectors should be senior and experienced enough to be in a position to critically comment on and assess the quality of business conducted by the branch officials. (13.3)

16.101 The internal audit/inspection should ordinarily be conducted once every year on a surprise basis. The verification of stocks pledged/hypothecated to the bank (which should also be on a surprise basis) should be carried out once in each quarter. One of the quarterly visits of the Godown Inspector should synchronize with the annual audit/inspection. (13.4)

16.102 While drawing the inspection programme it should be ensured that an official does not visit the same branch consecutively. To facilitate chalking of inspection programme, cards for each branch containing history of previous inspections may be maintained by the Inspection and Audit Department. The cards should be arranged in a chronological order on the basis of the dates of last inspections. (13.4)

16.103 As far as possible, the inspection should be taken up when the internal audit is nearing completion or soon after its completion. However, in the case of large branches, the audit and inspection may be taken up simultaneously and one or more Internal Auditors may be deputed to assist the Inspector. Continued presence of inspection staff at a branch for a long time disturbs its day-to-day working and, therefore, the size of the team should be sufficiently large so as to complete the audit/inspection expeditiously. (13.4)

16.104 Banks may carry out concurrent audit of their main offices in the metropolitan cities. (13.4)

16.105 Branch inspection should not merely be a routine check of the books and records of the branch but an intelligent examination of the assets and liabilities and overall review of the branch's working. (13.5)

16.106 Apart from the examination of various assets and liabilities of a branch outstanding at the time of audit, a test check of some of the transactions effected since the date of last audit on random sampling basis and a percentage check (say 5 to 10 per cent) of the account opening forms, specimen signature cards, notings in respect of cheque books issued, recording of stop payment instructions, compliance with standing instructions, etc., should be made by the Internal Auditor. (13.5)

16.107 In order to ensure that audit/inspection is thorough and exhaustive, a check list on the lines of the 'Hand Book for Bank Inspectors' prepared by the Bankers Training College should be supplied to the inspection staff. (13.5)

16.108 The approach of the Inspector should not be merely critical but should be constructive. He should not only bring out the irregularities observed but also make suggestions for improvement in the working of the branch. He should discuss the findings of the audit/inspection with the branch officials and should arrange with the branch agent to have minor irregularities rectified, to the extent possible, during the course of inspection. A list of such irregularities should be supplied to the branch agent and a copy thereof, together with the agent's comments, should be appended to the inspection report. (13.5)

16.109 Major irregularities observed in the working of the branch which require specific action, including comments on advances which are grossly out of order, should be highlighted by incorporating them in an appendix to the report. Similarly, the suggestions for improving the working of the branch should also be given in another appendix. (13.5)

16.110 Inspection staff should make efforts not only to detect frauds committed by employees and/or others but also to find out laxity or loopholes in the procedures relating to accounting, checking, custody of valuables, security arrangements, etc., at the branch. (13.6)

16.111 On the basis of the findings of audit and inspection of a branch, the Inspector should arrive at an overall assessment of the working of the branch and classify it according to its standard of efficiency. In order to avoid personal bias and to eliminate subjective assessment, rating should be on a scientific basis. A representative body like the National Institute of Bank Management may compile a suitable scheme for this purpose for adoption by banks. (13.7)

16.112 One copy of the audit report may be submitted by the Internal Auditor to the Inspection and Audit Department at the head office while another copy may be given to the branch for forwarding its comments to the head office. One copy should also be sent to the regional office. If the, Internal Auditor observes any serious irregularity during the course of the audit, he should report it to the head office immediately by means of a separate communication. A copy each of the inspection report should be sent to the regional office and the head office but not to the branch. The head office should examine the report and take up the matters on which action is necessary with the branch and the regional office. (13.8)

16.113 Any serious irregularity reported to the head office by the Internal Auditor or the Inspector should be immediately brought to the notice of the Chief Executive Officer of the bank, who may, if considered necessary, refer it also to the Board of Directors/Executive Committee. The irregularities should be followed up vigorously till they are rectified. (13.8)

16.114 At the end of each quarter, the Inspection and Audit Department should prepare a memorandum on the basis of the inspection/audit reports received during the quarter for submission to the Board of Directors, bringing out, *inter alia*, major irregularities observed and action taken or proposed to be taken to rectify them. (13.8)

16.115 A committee may be appointed under the auspices of the Reserve Bank of India or the National Institute of Bank Management to consider in detail the question of creation of a common agency for inspection of the offices of all banks in the Public Sector and to formulate standard forms and procedures, keeping in view the need for progressive mechanisation on a planned basis for rendering better customer service. (13.9)

PERIODICAL RETURNS

16.116 Statistical returns (excepting those required to be sent by branches direct to the Reserve Bank of India) should be submitted to the regional offices, which should send consolidated statements to the head office. However, where the head office has automation facilities, returns may be submitted direct to that office for consolidation and feed back of information to regional offices. Also, in cases where information is required for submission to the Government of India or the Reserve Bank of India urgently (*e.g.*, weekly statement under section 42 of the Reserve Bank of India Act, 1934), it may continue to be collected by head offices direct to avoid time lag involved in its being routed through regional offices. Considering the importance of analysis and processing of statistical information as an aid in formulation of policies in regard to operations, organisation, development and planning, it is necessary that banks should establish and/or strengthen Statistical/Economic Departments. (14.2)

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16.117 Branches should not be required to submit statements of all outstanding advances (other than U.B.B. returns) at frequent intervals and it will be adequate if such statements are called for once every year at the time of the annual closing. (14.3)

16.118 Branches should not normally be required to submit periodical returns giving details of advances sanctioned by officials within their discretionary powers. (14.3)

16.119 The control of the head office over advances through periodical returns should relate only to irregular advances, the position of the other advances being examined during the course of the annual inspection of branches. Branches should send returns of irregular advances (including bills purchased and discounted) to the regional office/head office at monthly intervals. Separate statements of irregular advances may be prepared for different types of advances, *i.e.*, cash credits, fixed loans, overdrafts, bills pur-

chased, etc., and sent on different dates of the month so as to stagger the work at the branch and facilitate scrutiny at the head office. As regards the advances involved in litigation, a return may be sent at quarterly intervals. (14.3)

16.120 The control returns should be scrutinised at the head office by the supervising staff and, where necessary, prompt follow-up action should be taken through the regional offices. All advances having serious irregularities, which are likely to jeopardise the bank's interests, should be immediately brought to the notice of the top management. (14.4)

16.121 Internal Auditors, during their visits to branches, should make a test check of the statements sent to the head office/regional office in order to find out whether all relevant advances had been included in the concerned return and whether the various particulars had been mentioned therein correctly and fully. (14.5)

MISCELLANEOUS

16.122 At the branches where the teller system has not been introduced, the waiting time of the customers paying in cash should be reduced by authorising the cashier to issue the counterfoil, without its being countersigned by another official. In order to maintain an independent record of cash receipts, Scroll Book may be maintained by a member of the Accounts Department who should sit near the cash counter. (15.2)

16.123 Cash registering machines may be introduced at bigger branches. Use of counting machines will also be helpful in expediting cash transactions. (15.2)

16.124 Cheques and other instruments tendered for collection should be allowed to be received by the bills clerk who should be authorised to sign the counterfoils singly after verifying that the instruments tendered are in accordance with the particulars noted in the pay-in-slip. Customers should, however, be notified to cross all instruments before tendering them for collection. (15.2)

16.125 The practice of maintaining a record of denominations of currency notes in the Cash Receipt and Cash Payment books involves duplication and should be dispensed with. Further, for the sake of convenience, the particulars of currency notes may be noted on the face of the pay-in-slips instead of on the back by changing the form suitably. (15.3)

16.126 Receipt and payment cashiers may be required to maintain cash boxes which may be locked by them at the close of business every day

and deposited in the vault without their contents being checked by the head cashier. The locked boxes should be delivered to the cashiers next morning. Cashiers should certify every day the amount of cash contained in the locked boxes and proper record of it should be maintained. Where considered necessary, a maximum limit may be fixed for cash thus kept in the cashiers' boxes. The contents of the boxes should be verified at periodical intervals on a surprise basis by the head cashier/agent. (15.4)

16.127 Increased use of ultra-violet ray equipment should be made by banks at their urban branches and they should also supply protectograph machines to all branches which are authorised to issue drafts. (15.5)

16.128 A planned programme for use of regional languages for account opening forms, pay-in-slips, cheque books, pass books, statements of account, etc., should be adopted and implemented by banks, so that within a period of three years or so dealings with customers are carried out entirely in the languages they fully understand. (15.6)

16.129 In order to make banking easily understood by the public, audio-visual publicity through exhibition of documentaries and publicity through pamphlets in regional languages, portraying the advantages of carrying out monetary transactions through the medium of banks, would be immensely helpful. (15.6)

16.130 Government departments, local bodies, educational institutions, public utility concerns, public sector undertakings, etc., should encourage the use of cheques in their financial transactions with the public, where necessary, by suitably amending their rules and regulations. (15.6)

16.131 Banks may discontinue the practice of half-yearly closing of accounts at the end of June each year as it entails considerable labour without commensurate benefits. (15.7)

16.132 The question of standardising the form of import letter of credit may be considered by the Exchange Control Department of the Reserve Bank of India in consultation with the Foreign Exchange Dealers' Association and in keeping with the requirements of importers. The Reserve Bank of India may also consider the feasibility of the suggestion that banks be allowed to send copies of letters of credit opened, with a covering list indicating only the distinctive numbers of letters of credit and their amounts, instead of the prescribed monthly statement of import letters of credit opened. (15.8)

16.133 The Foreign Exchange Dealers' Association may consider standardising the form of mail transfer receipts. (15.8)

16.134 Indian banks which have not so far established a separate O. & M. Department may establish it as early as possible. However,

in case any of the small banks finds it difficult to establish a full-fledged department for the purpose, in view of the cost involved, it should train one or two of its officials in O. & M. work. These officials will be able to attend to O. & M. aspects of the bank's working, in addition to other normal duties, where necessary. The heads of O. & M. Department of different banks should meet periodically, say once every half-year, for exchanging the information regarding the studies made by them. The Reserve Bank of India may take the initiative in the matter. The banks which have not so far introduced a suggestion scheme should do so at an early date.

(15.9)

16.135 Complaint-cum-suggestion boxes should be provided at all branches of banks for use of the public. Regional managers and development officers attached to regional offices, on their visit to the branches, should spare some time to hear the grievances and suggestions of the local constituents. (15.10)

16.136 Whenever possible, banks should try to shift a portion of the work at a very big branch to new premises in the same locality by opening another branch. For housing new branches, particularly in the rural areas where suitable premises on rent are not available, it would be preferable for banks to encourage construction of buildings by advancing money to persons owning suitable land instead of constructing the buildings themselves which would result in locking up of their funds. Adequate attention to matters such as lay out, colour scheme, construction of modern counters, pleasing lighting arrangements, decor, staff and customer amenities should be paid while planning new buildings. While designing a bank building, the problems of special categories of customers such as pensioners and women should be kept in view and discussed with the architects. The security aspect should of course be borne in mind.

16.137 The question of making a suitable legal provision permitting banks to destroy cheques, ledgers and other records after lapse of specified periods should be examined. Banks may also consider the feasibility of micro filming important records before their destruction, taking into account the cost aspect. (15.11)

16.138 Banks should take steps to improve the lay out in their offices, in order to enhance the efficiency of the staff as also for improving the customer service, after conducting studies of office routine from time and motion and flow angles. (15.11)

16.139 To begin with and on an experimental basis, administrative offices of banks may remain fully closed on Saturdays and, to compensate for the loss of man hours, the working hours on other week days should be

suitably enhanced. The question of introducing similar change in the bank offices dealing with the public may be considered later. (15.12)

16.140 Wherever feasible, working hours in residential areas of urban centres may be in the mornings and evenings to suit the convenience of the clientele. (15.12)

D. R. Joshi—*Chairman*

T. N. Ramamurthi

S. P. Chandavarkar

V. Mahadevan

N. K. Randeria

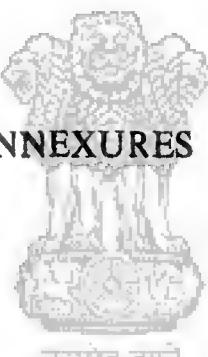
Krishan Murari

K. B. Chore—*Convener*

Bombay,
24 July, 1971.



ANNEXURES



ANNEXURES

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ANNEXURE I

OFFICE ORDERS

EXTRACT OF OFFICE ORDER No. BC. S/BP/1/70 dated 14-2-1970

Subject : Constitution of a Study Group on Bank Procedures

The Banking Commission appoints the following persons to constitute the Study Group on Bank Procedures :—

(1)	Shri D. R. Joshi, Member, Local Advisory Committee, Bank of America, Bombay-1.	Chairman
(2)	Shri T. N. Ramamurthi, Assistant General Manager, Central Bank of India, Mahatma Gandhi Road, Bombay-1.	Member
(3)	Shri N. K. Randeria, Law Officer, State Bank of India, Bombay-1.	Member
(4)	Shri V. Mahadevan, National Institute of Bank Management, Bombay-6.	Member
(5)	Shri S. P. Chandavarkar, In-charge Systems, Union Bank of India, Apollo Street, Bombay-1.	Member
(6)	Shri K. B. Chore, Deputy Chief Officer, Banking Commission (Government of India), Bombay-6.	Convener

One or two more persons may be appointed later on by the Commission, if considered necessary.

2. The Terms of Reference of the Study Group will be as follows :

- (i) To review the operating methods and procedures prevalent in the banking system in the country and to make suitable recommendations for their improvement, keeping in view the need for rendering speedy and efficient service to various types of constituents as also the safety of banking transactions.
- (ii) To make recommendations on any other related subject matter which the Study Group may consider germane to the subject of enquiry or any related matter which may specifically be referred to the Group by the Commission.

3. The Study Group will submit its report as early as possible.

* * * *

EXTRACT OF OFFICE ORDER No. BC.S/BP/2/70 DATED 5-3-1970

Subject : Constitution of a Study Group on Bank Procedures

In continuation of the Office Order No. BC.S/BP/1/70 dated the 14th February 1970 constituting the Study Group on Bank Procedures, the Banking Commission appoints Shri Krishan Murari, Accountant, Bombay Branches, First National City Bank, 84, Veer Nariman Road, Bombay-1 as a Member of the Study Group on Bank Procedures.

* * * *

ANNEXURE II

Names of bankers who attended the conferences at different centres organised by the Study Group.

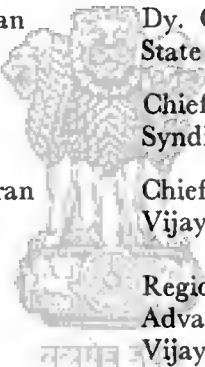
(i) *CALCUTTA*

Names	Designation and the Name of the Bank
1. Mr. B. Longmate	General Manager, (Accounts & Finance), Allahabad Bank.
2. Shri J. G. Rai	Officer-in-Charge, Inspection Department, Allahabad Bank.
3. Shri M. V. S. Menon	Assistant Manager, American Express.
4. Mr. R. Stuart	Senior Executive, Chartered Bank.
5. Mr. J. A. Payne	Special Inspector, National & Grindlays Bank.
6. Shri S. Niyogi	Dy. Secretary & Treasurer, State Bank of India.
7. Shri N. C. Bannerjee	District Superintendent, State Bank of India.
8. Shri M. Sen	Chief Officer, (Methods & Systems), United Bank of India.
9. Shri S. J. Utamsing	General Manager, United Commercial Bank.
10. Shri J. N. Biswas	General Manager, United Industrial Bank.

(ii) *BANGALORE*

1. Shri G. Umesh Rao	Senior Superintendent, Planning & Development Zone, Canara Bank.
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Names	Designation and the Name of the Bank
2. Shri S. Ranga Rao	Superintendent, Branches Inspection Department, Canara Banking Corporation.
3. Shri B. Venkatramana Rao	Agent Karnataka Bank, K. G. Road Branch.
4. Shri M. A. Kandoor	Agent (Designate), Karnataka Bank, City Market Branch.
5. Shri P. S. Vaidya	General Manager, State Bank of Mysore.
6. Shri G. M. Natarajan	Dy. General Manager, State Bank of Mysore.
7. Shri H. N. Rao	Chief Accountant, Syndicate Bank.
8. Shri C. H. Sreedharan	Chief Accountant, Vijaya Bank.
9. Shri N. A. Prabhu	Regional Manager, Advances Department, Vijaya Bank.
10. Shri Satyanarayana	Assistant General Manager, Vysya Bank.



(iii) *MADRAS*

1. Shri K. Gopal Rao	Chairman, Andhra Bank.
2. Shri S. Nagarajan	Assistant General Manager, Andhra Bank.
3. Shri B. Krishna Moorthy	Divisional Manager, Andhra Bank.
4. Shri S. Alagusundaram	Secretary, Bank of Madura.

Names	Designation and the Name of the Bank
5. Shri S. Ramanathan	Agent, Bank of Madura, Madras Main Branch.
6. Shri C. N. Sivabhushanam	Officer on Special Duty, Indian Bank.
7. Shri S. V. Sundaram	Assistant General Manager, Indian Overseas Bank.
8. Shri G. S. Annaswami	Chairman, Karur Vysya Bank.
9. Shri K. V. Raghavachari	Secretary, Karur Vysya Bank.
10. Shri K. N. Seshadri	Deputy General Manager, South Indian Bank.
11. Shri M. Easaw	Special Officer, South Indian Bank.
12. Shri R. Jaivanth Rao	Deputy General Manager, State Bank of Hyderabad.
13. Shri S. Venkatachari	District Superintendent, State Bank of India.
14. Shri A. C. Desikachari	Assistant General Manager, State Bank of Travancore.
15. Shri D. Lakshminarayan	Chairman, Tanjore Permanent Bank.

(iv) **DELHI**

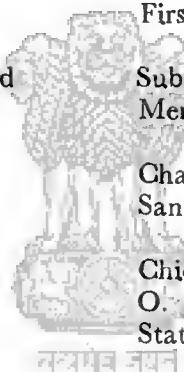
1. Shri R. Hariharan
Superintendent,
Audit & Inspection,
Hindusthan Commercial Bank.
2. Shri Sheikh Mohi-u-din
Superintendent of Branches,
Jammu & Kashmir Bank.

Names	Designation and the Name of the Bank
3. Shri Ishar Singh Bajaj	Chairman, Lakshmi Commercial Bank.
4. Shri T. R. Tuli	Chairman, New Bank of India.
5. Shri I. S. Anand	Deputy General Manager, Oriental Bank of Commerce.
6. Shri S. L. Kapoor	Chief Inspector, Punjab National Bank.
7. Shri Inderjit Singh	Chairman, Punjab & Sind Bank.
8. Shri Autar Singh Bagga	General Manager, Punjab & Sind Bank.
9. Shri C. P. Saigal	General Manager, State Bank of Bikaner & Jaipur.
10. Shri M. B. Dutta	District Superintendent, State Bank of India.
11. Shri B. Rai	Officer-in-Charge, O. & M. Department, State Bank of India.
12. Shri K. Subramanian	General Manager, State Bank of Patiala.

(v) **BOMBAY**

1. Mr. R. J. Gillis
Assistant Vice President,
Bank of America.
2. Shri M. K. Gupte
Manager,
Bombay Main Office,
Bank of Baroda.
3. Shri R. P. Vaidya
Officer-in-Charge,
O. & M. Department,
Bank of India.

Names	Designation and the Name of the Bank
4. Shri S. V. Dharmadhikari	Joint General Manager, Bank of Maharashtra.
5. Shri S. T. Parekh	Assistant General Manager, Central Bank of India.
6. Shri C. V. Subramaniam	Deputy General Manager, Dena Bank.
7. Shri S. V. Satyamurthy	Officer, Dena Bank.
8. Shri K. S. Karant	Manager, First National City Bank.
9. Mr. D. A. Stairmand	Sub-Accountant, Mercantile Bank.
10. Shri M. K. Gupte	Chairman, Sangli Bank.
11. Shri P. R. Kodange	Chief Officer, O. & M. Department, State Bank of India.
12. Shri V. N. Nadkarni	General Manager, State Bank of Indore.
13. Shri E. R. Mama	Assistant General Manager, Union Bank of India.
14. Shri N. G. Moghe	Manager, Bombay Branch, United Western Bank.



ANNEXURE III

Names of bankers and other experts with whom the Chairman and/or member/s of the Study Group had discussions on various subjects.

Name	Subject for Discussion
Shri K. P. N. Nair	Director of Statistics, Reserve Bank of India, Bombay.
Shri S. Swarup	Additional Chief Officer, Electronic Data Processing Centre, State Bank of India, Bombay.
Shri P. N. B. Bagli	Officer-in-Charge, Central Accounts Department, Central Bank of India, Bombay.
Shri A. Malhotra	Tata Consultancy Services, Bombay
Shri S. S. Sahni	Deputy Secretary, Planning, State Bank of India, Bombay.
Shri P. M. Trilokekar	Officer-in-Charge, Foreign Exchange Department, Bank of India, Bombay.
Shri G. R. Prabhu	Manager, Foreign Exchange Department, Canara Bank, Bombay.
Shri S. L. Baluja	Manager, Punjab National Bank, Bombay.
Shri K. Mathradas	I.B.M. World Trade Corporation, Bombay.
	Use of sampling me- thods in internal audit & inspection of branch- es
	Procedures relating to inter-branch account- ing system and use of computers for the purpose
	Periodical returns
	Financing of exports and other foreign ex- change procedures
	Financing of exports and other foreign ex- change procedures
	Use of mechanical aids in consolidation and analysis of data

Name	Subject for Discussion
Shri H. E. Chatelier	Chief Officer, Administration, State Bank of India, Bombay.
Shri H. S. Majumder	Deputy Secretary & Treasurer, State Bank of India, Bombay.
Shri J. S. Varshneya	Chief Officer, Rural Credit Section, State Bank of India, Bombay.
Shri A. Mariappan	Chief Officer, Inspection, State Bank of India, Bombay.



Financing of small scale industries

Financing of agriculture

ANNEXURE IV — PART I

**Analysis of replies to the questionnaire regarding financing
of small scale industries issued by the Study Group on
Bank Procedures.***

Question No. 1

Please indicate the arrangements made by your bank for processing applications for advances to small scale industries as also for the follow-up action by branch agents who are not normally technically qualified. For this purpose, do you consider it desirable to create cells of technically qualified officers at suitable group centres and if so, should these officers visit the branches within the group (i) for the purpose of initial assessment of the loan proposals and (ii) for periodical supervision of the advances after they have been sanctioned ? What should be the frequency of such visits ?

Summary of Answers :

(i) The applications for advances from small scale industrial units are processed by the branch agents, regional offices and small scale industries department at the head office and sanctioned in accordance with the discretionary powers vested in them. For the purpose of processing the applications, some of the banks have posted technically qualified officers at the regional offices. In some cases, technical reports on the schemes received are obtained from the Small Industries Service Institute, Directorate of Industries, etc.

(ii) All the Indian banks which have replied to the question consider it desirable to create cells of technically qualified officers at suitable group centres. Two of the banks have, however, expressed a difficulty of getting suitable persons with adequate technical qualifications for the purpose. One bank feels that regional cells of technically qualified men should be set up jointly by all the banks in the area to go into the question of technical feasibility of small industrial units seeking credit facilities.

(iii) Most of the Indian banks consider it necessary that the officers attached to the cells should visit the units periodically for initial assessment as well as for post sanction supervision. However, according to two of them the initial assessment alone should be made by the officers attached to the cell and the follow-up supervision should be carried out by the branch personnel.

* Analysis is based on replies received from 20 banks out of 28 banks to which the questionnaire had been sent.

(iv) There is a wide divergence in the views expressed by certain banks as regards the frequency of visits to small scale industrial units by the personnel attached to special cells. One of the banks feels that the visits to units should be made once or twice a month while according to another bank the visits should be paid once in 12 to 18 months. Generally, however, the banks are of the view that the visits should be paid once in two or three months.

Question No. 2(a)

Please indicate the powers delegated by your bank to the branch agents for sanctioning working capital advances as well as term loans. What checks have you prescribed to ensure that these powers are judiciously exercised by them ?

Summary of Answers :

(i) The discretionary powers given to the branch agents for sanctioning loan proposals vary from bank to bank. The range of variation in respect of small branches on the basis of replies received from Indian banks is indicated below :—

Category of advance	Range of variation (Rs.)
Pledge of goods	1,000 to 50,000
Hypothecation of goods	Nil to 20,000
Unsecured overdrafts	Nil to 10,000

(ii) Check is kept by the Indian banks over the exercise of discretionary powers by the branch agents in the following manner :—

(a) Some of the banks require the branches to send to the head office/regional office detailed particulars of the advance as soon as it is sanctioned.

(b) Certain banks call for periodical statements from the branches in respect of the advances sanctioned and rejected by them.

(c) Other banks exercise check through inspection/audit.

The foreign banks have generally expressed that they have full confidence in their branch agents and they do not consider it necessary to exercise any special check over the use of discretionary powers by them.

Questions 2(b) and (c)

(b) In cases where advances are required to be referred to the head office/controlling office, how do you ensure that the disposal of the proposals is not delayed ?

(c) What checks have you provided to ensure speedy disposal of advance proposals at the branches?

Summary of Answers :

(i) Measures devised by banks for ensuring that there is no delay at the head office/controlling office in disposing of the applications for advances from small scale industries are :

- (a) instructing the small scale industries department to deal with the applications expeditiously ;
- (b) maintaining a register to record the date of receipt of the application and its disposal ; and
- (c) obtaining weekly arrears report from the concerned sections.

(ii) As regards the disposal of applications at the branch level, the methods adopted for minimising delay are :—

- (a) time limit of 15 days has been prescribed ;
- (b) field officers are asked to collect the information which the borrowers fail to furnish in their applications ;
- (c) branches have been asked by some of the banks to maintain record of date of receipt of application and its disposal ;
- (d) inspecting officers are required to look into this aspect ;
- (e) pending lists are periodically called for ; and
- (f) senior officers visit branches from time to time to ensure that there is no delay.

(iii) Foreign banks have stated that no delay generally occurs.

Question No. 2(d)

In the interest of expeditious disposal of loan applications received from small scale industries, would you consider it desirable to delegate increased discretionary powers to the branch agents so that the reference of proposals to the head/controlling office is minimised? If so, would you consider it necessary to arrange for a periodical scrutiny of the advances granted by them within their discretionary powers by a set of roving officers or otherwise, in order to exercise a post sanction control over these advances and to ensure that liberalised powers are not abused by the branch agents?

Summary of Answers :

The banks have generally stated that the present powers given to the branch agents are adequate. Some of the banks review the position periodically and enhance the powers whenever such action is considered necessary.

As regards the post-sanction scrutiny, 2 banks are already conducting such examination through touring officers/divisional managers ; 3 banks consider that introduction of such a system is desirable ; one bank feels that post-sanction scrutiny will not be conducive to efficient functioning of the bank ; 2 banks feel that as sanctions are reviewed at the head office level scrutiny would be a repetition ; other Indian banks have not expressed any definite opinion in the matter. None of the foreign banks deems it essential to have such controls.

Question No. 3(a)

Do you consider it desirable that small scale industries should meet all their credit requirements from one bank only ? Do you also feel that they should not borrow from non-institutional financiers ?

Summary of Answers :

All the banks which have replied to the question except one, consider it desirable that the small scale industries should meet all their credit requirements from one bank only. However, 3 banks feel that relaxations may have to be allowed in respect of advances from State sponsored agencies and specialised financing institutions or in respect of units which have factory at one place and office at another. One bank feels that there should be no objection to different banks financing the same unit for different purposes, e.g., fixed capital, working capital, bill business, etc.

All banks, except two, have observed that small scale industries should not borrow from non-institutional financiers. One of the banks, which has differed, feels that the small scale units may be allowed to borrow from such agencies with the permission of the main financing institution while the other bank is of the view that the quantum of non-institutional finance often reflects the unit's credit and reputation in the market and, therefore, there should be no objection for non-institutional finance within reasonable limits for temporary periods as 'bridging' finance.

Question No. 3(b)

Do you grant clean accommodation to these units and, if so, for what purposes and in which circumstances ?

Summary of Answers :

Banks generally do not encourage clean advances to small scale industries. They are occasionally sanctioned for short periods only in special circumstances such as to meet urgent payment to workers or income-tax department, to tide over liquidity problems or by way of clean bills purchased to facilitate

movement of goods. However, clean advances with definite repayment programme are granted to viable units, to technicians, to auto service or repair shops, etc., for preliminary expenses or by way of packing credit facilities.

Question No. 3(c)

Have you fixed any norm for the ratio between owned funds and borrowing of small scale units for the purpose of assessment of the maximum limits that can be sanctioned by your bank? If so, what is the norm?

Summary of Answers :

Out of 20 banks which have replied to the question, 8 banks have not fixed any norm for the purpose. Some of the banks consider the ratio 1 : 3 of owned funds to borrowings as satisfactory. Many banks allow relaxations depending upon the size of the unit and purpose of the borrowing.

Question No. 3(d)

Do you consider the deposits accepted by the units from friends and relatives of the proprietors/partners/directors as their borrowings for the purpose of the norm? How do you ensure that these deposits are not allowed to be either suddenly withdrawn or to fall to a low level, after the sanction of the advance?

Summary of Answers :

Seven banks consider such deposits as owned funds whereas 10 banks consider them as borrowings while 3 banks have offered no specific comments. Most of the banks obtain a formal undertaking that the funds will not be withdrawn during the currency of the bank's loan. Some of the banks obtain annual statements in order to see whether such deposits are maintained at a stable level or take up periodical inspections to see that the deposits are not repaid in preference to the bank's borrowings.

Question No. 4

With a view to obviating the need to maintain detailed opinion sheets on small scale units and simplifying application forms, would you favour bifurcation of the application form into two parts, *i.e.*, (i) application form to be signed by the borrowing concern and containing only the minimum required information and (ii) interview form incorporating the necessary additional data collected by an officer of the bank and his opinion on the creditworthiness of the party? If so, should such opinion substitute the existing credit reports being compiled by a credit investigator after verifying the information furnished by the borrower from independent sources?

Summary of Answers :

Most of the banks are in favour of bifurcation of the application form but some of them feel that information obtained through interview should be counter-signed by the borrower. Views of the other banks are summarised below :—

- (a) Three banks feel that the present system is satisfactory and bifurcation is not necessary.
- (b) One bank is of the view that application form should be simple and it should be supplemented by personal discussion and independent outside opinion.
- (c) One bank feels that in regard to proposals upto Rs. 10,000 credit reports can be dispensed with and substituted by an interview but in respect of proposals for higher amounts, credit reports are necessary.

Questions Nos. 5(a) and 5(b)

(a) Do you consider the appointment of watchmen in respect of the factory type advances to small scale industries too costly for the borrowing concerns? Would you consider it desirable to dispense with the watchmen by granting advances to these concerns on hypothecation basis or on the basis of a trust letter? If so, at what periodical intervals would you stipulate stock verification by branch officials and by inspecting officers?

(b) Should the duty of the inspection staff be restricted to verification of the quantity and quality of stocks charged to the bank or should they instead or in addition review the production, sales and generally the working of the borrowing concerns?

Summary of Answers :

The banks have generally agreed that the appointment of watchmen is costly for small scale industries and that it is desirable to grant advances on hypothecation basis rather than on factory type basis. As regards the frequency of inspection of hypothecated stocks, most of the banks feel that monthly inspection is desirable but some of them are of the view that inspections once in two or three months would be adequate. One foreign bank, however, considers that inspection should be once every half-year.

All the banks, except four, agree that the inspection staff should, besides verifying the quality and quantity of stocks, review the production, sales and working of the borrowing concerns. Of the 4 banks which have expressed differing opinion, one bank feels that such review by inspecting officers, although desirable, would not be practicable while another bank considers that the review should be undertaken only in respect of sticky advances and not when the unit is working satisfactorily. The other 2 banks feel that the review of production, sales and working of the borrowing concerns should be left to the Managers/Field Officers.

Question No. 6

In view of the fact that a large number of small advances are being granted by banks to priority sectors and other small borrowers, the system of reporting all the outstanding advances in periodical statements submitted by the branches to the Head/Controlling Office is likely to cause strain on the branch staff for preparing them and the head office staff in scrutinising them. Would you, therefore, consider it desirable to call for information from branches in the periodical returns (except the year-end returns) only in respect of such advances as are out of order or wherein certain relaxations from the usual norms have been granted by the branch agents, the control over other advances being exercised through the roving officers referred to in question No. 2(d) ?

Summary of Answers : .

Most of the Indian banks which have replied to the question are of the view that the present system of reporting all outstanding advances to the head office at periodical intervals should continue to enable the latter to keep a watch over the working of the branches, particularly as a large number of agents are inexperienced. The foreign banks, however, generally feel that such statements result in unnecessary paper work and cast a voluminous burden on the branches and, therefore, only out-of-order advances should be reported to the head office.

Question No. 7

Should the services of the technical staff, employed by the bank for appraising the loan applications, etc., be made available to the borrowing concerns for tendering such technical advice as they may require ? Should the banks also make available consultancy services in regard to management problems to the borrowing units by employing suitable qualified staff at the group offices ? If so, should the technical and management consultancy service provided by the bank be made available free of charge or at a reasonable cost ?

Summary of Answers :

Majority of the banks feels that services of the technical personnel employed by them should be made available to the borrowing concerns for consultation and that consultancy services in regard to management problems should be provided by the banks. As regards the cost, there is divergence of opinion. In the opinion of some of the banks, services should be free while others are in favour of levying a reasonable charge. Certain banks have suggested that either the consultancy services should be on an informal basis or it should be stipulated that no liability would be incurred by the bank for the advice tendered.

The banks which are not in favour of providing technical or management consultancy services by banks to small scale industries, are of the view that these services should be rendered by specialised institutions. The reason given by one of these banks in support of its view is that it would not be proper for the bank's staff to pass on the know-how learnt by them from one client to another. According to it, the small scale industries in India do not really suffer from management problems but from problems of dissention, dishonesty, absence of good market, etc., which are not capable of being solved by management expert's advice as the remedy in such cases would lie in changing the management. Another bank is of the view that if proper advice is to be given technical experts in several fields will have to be employed and there may not be sufficient opportunity to keep them fully employed.

Question No. 8

Do you consider it necessary to help a borrowing concern not working satisfactorily by giving it competent management and technical assistance of a specialised nature to improve its working in order to ensure that the safety of the bank's funds is not jeopardised? In that case, as the employment of technical staff capable of catering to the specialised needs of different types of small scale industries would be too costly, should the bank enter into collaboration arrangements in this regard with other financial/technical agencies working in these fields?

Summary of Answers :

In the opinion of the majority of banks, technical and management assistance to the weak units should be provided by financing institutions in order to safeguard their own position. One bank has added that a separate agency with competent technical personnel should be started for the purpose. The banks which have disagreed generally feel that the banks should not be expected to involve themselves in the active day-to-day management of small scale manufacturing units and that remedy in the case of weak units may lie in changing the management rather than in giving advice and help.

ANNEXURE IV — PART II

Analysis of replies received from commercial banks to certain questions relating to 'services to depositors and members of the public' issued by the Banking Commission.*

SCOPE OF BANKING SERVICES

Question No. 9.1.1

Please list the various services offered by your bank to depositors and members of the public and furnish the schedule of rates laid down wherever appropriate.

* This analysis is based on replies received from 63 banks to question No. 9.1 and from 64 banks to other questions.

Summary of Answers :

Besides accepting deposits and making loans and advances, the services generally rendered by banks include :

- (i) issue of drafts, mail transfers and telegraphic transfers ;
- (ii) collection and negotiation of bills ;
- (iii) issue of guarantees, letters of credit and travellers' cheques ;
- (iv) assisting constituents in sale and purchase of Government securities and shares of companies as also collection of interest and dividend thereon ;
- (v) handling of foreign exchange business (by authorised dealers) ;
- (vi) making periodic payments on behalf of constituents under standing instructions ;
- (vii) providing safe deposit lockers and safe custody facilities.

On a perusal of the information relating to the schedule of rates for the services rendered, as furnished by the different banks, it is observed that there is no uniformity in the rates prescribed. For instance, one of the banks in the public sector has not prescribed any rates of commission/exchange in respect of local as well as outstation demand and usance bills received for collection and the agents have been vested with discretion for quoting rates after taking into consideration factors such as work involved, value of the constituent's account to the bank and the existing competition from other banks. Another nationalised bank has not similarly prescribed any rates for local demand as well as usance bills and discretion in this regard has been vested with the branch managers. The rates prescribed for both local as well as outstation demand and usance bills for collection by four banks belonging to one group differ as between themselves. The schedules of rates fixed for remittance of funds by different banks also differ widely.

Question No. 9.1.2

Has your bank taken any special steps to make banking services easily understood by the community ? If so, what are they ?

Summary of Answers :

13 banks have stated that they have not taken any special steps to make banking services easily understood by the community. Steps taken by other banks in this regard, as indicated by them, are summarised below :

- (i) Advertisements in newspapers and periodicals, issue of pamphlets, brochures in English, Hindi and regional languages, display of

hoardings, holding of stalls at exhibitions and trade fairs, and exhibition of cinema slides and documentary films.

- (ii) Printing in vernacular languages the terms and conditions of deposits, account opening forms, pass books, cheque books, loan forms, documents, etc.
- (iii) Opening of branches in semi-urban and rural areas.
- (iv) Recruitment of staff for the branches with regional bias.
- (v) Personal contacts by Manager and staff with the local public to explain the various services rendered.
- (vi) Opening of mobile banks to cater to the needs of the villagers.
- (vii) Organising seminars for farmers and small scale industrialists.

Question No. 9.1.4

What new services for depositors and the members of the public have you introduced in the last five years? Are you contemplating widening the scope of the services? If so, what new services are you thinking of introducing and what merit would you claim for them?

Summary of Answers :

22 banks have not introduced, during the last five years, any new service for the depositors and the members of the public. Such services introduced by other banks include the opening of pilot branches, drive in counters, mobile banks, morning and evening branches and evening shopping counters; allowing operations of safe deposit lockers on Sundays and holidays; introduction of teller system; collection of deposits from depositors' residences; house savings scheme; coupon deposit scheme; special plan scheme; children's savings scheme (pigmy bank); opening illiterate depositors' accounts; retirement plan accounts scheme; introduction of emergency vouchers encashable at selected Burmah Shell stations; printing of depositors' names on cheques; courtesy cards; free transfer of funds; collection of outstation bills, cheques, etc., at par; acceptance of cheques for clearance in the afternoon between 4 p.m. and 5 p.m. and income-tax consultancy service.

Apart from the above, the new schemes which were under consideration of some of the banks related mainly to introduction of student education deposit scheme, pension plan certificates, monthly income certificates, management consultancy service and travel/tourist information bureau.

Full details of the special schemes introduced or proposed to be introduced and their merits have been given by only a few banks and that too only in respect of very few schemes. These schemes are described below:—

Special Plan Schemes :

These schemes entitle the recurring depositors (after specified periods) to receive repayments of the amount of principal and interest in instalments spread over a number of years.

Student Education Deposit Scheme :

According to this scheme a prescribed sum would be made available in instalments at a certain age to the student to prosecute university education.

Courtesy Cards :

Approved customers are issued courtesy cards which will enable the holder to encash his cheques at any branch of the bank or associate institutions upto a specified limit at any one time.

Question No. 9.1.6

What suggestions have you to offer to make payment of cheques more widespread ?

Summary of Answers :

The main suggestions which relate to procedural aspects can be classified as under :—

- (i) Printing of cheques in the local languages and free acceptance of cheques signed or endorsed in vernacular.
- (ii) Ensuring prompt encashment of cheques at the counter.
- (iii) Stipulating lower minimum balance in current account, issue of cheques with name of the depositor printed thereon, issue of handy wallets for keeping cheque books, etc.
- (iv) Simplifying the procedure for opening of deposit account by an illiterate person and arrangement for his photograph at bank's cost.
- (v) Opening of more clearing houses, rationalisation of clearing house procedures, collection of outstation cheques free of charge or at nominal charge and prompt credit of their proceeds to the depositors' accounts, provision of mail transfer facilities between two accounts maintained at different banks by mutual arrangement.
- (vi) Opening of more branches in urban and rural areas and employment of rural persons to attend to rural folk and lady clerks for ladies.

- (vii) Exhibition of small documentaries and publicity through pamphlets portraying the advantages of the use of cheques as also emphasizing the inconveniences and hazards fraught with their non-use.
- (viii) Use of cheques in financial transactions by Government Departments, local bodies, educational institutions, public sector undertakings, etc., and authorising the public sector banks to recover taxes.

DEPOSIT ACCOUNTS — INTRODUCTION

Question No. 9.2.2

What enquiries are made to establish the identity of the depositor for opening a current account or a cheque operated savings bank account?

Summary of Answers :

Banks insist upon the prospective depositor to furnish introduction from either any of their existing account holders or a respectable person known to them including their staff preferably an officer. The introduction is obtained to establish the status, standing and reputation of the depositor as also the *bonafides* of his future transactions with the bank. The person introducing the account is required to sign on the account opening form, in the space provided, in the presence of the bank's authorised officer. But, in case the introducer does not visit the bank personally, a letter of thanks for introducing the account is sent to him as a matter of courtesy as also to provide him with an opportunity to disown the introduction if it happens to be a forged one. Foreign banks also accept the passport of the depositor as a means to establish his identity. The depositor is generally interviewed by the Manager/Accountant before opening his account. During the interview, his address, native place, occupation, place of business, particulars of his relatives or friends having a bank account as well as his needs for the facility of a cheque book, etc., are enquired into. The Manager/Accountant authenticates the account opening form after satisfying himself about the *bonafides* of the person.

Question No. 9.2.3

In the case of current accounts and cheque operated savings bank accounts it is customary to obtain an introduction before opening these types of accounts. Do you think this safeguards the bank? If not, what further safeguards would you recommend?

Summary of Answers :

Most of the banks feel that the present system of obtaining introduction has proved effective to a great extent to safeguard their interests and that

introduction of any further measures such as subjecting the customers to searching enquiries regarding their antecedents, character, etc., will only inhibit their banking habit, especially in rural areas. However, a few of the banks have suggested certain further safeguards which are mentioned below :-

- (i) To make the account opening form comprehensive on the lines of the consumer credit loan form and to verify the relative information in a discreet manner.
- (ii) An enquiry by a bank official in the market or neighbourhood of the depositor regarding his creditworthiness, business, morality, etc.
- (iii) Furnishing the first cheque book to the depositor by registered post acknowledgement due if the introducer has not visited the bank personally.
- (iv) A close watch over the operations in the new account for periods ranging between three months to one year.

Question No. 9.2.4

Is it the practice in your bank to require introduction before opening any other type of deposit account? If so, please state your reasons therefor.

Summary of Answers :

For opening deposit accounts other than current or cheque operated savings bank accounts, 44 banks do not insist upon introduction. They feel that, in these accounts, the depositor's specimen signature obtained at the time of opening the account would be sufficient to safeguard the interest both of the bank as well as of the depositor. The other 20 banks, however, insist upon the introduction for one or more of the following reasons :—

- (i) To build closer link with the depositing public and to ensure payment of the amount to the right person on the due date, especially in the case of an illiterate depositor.
- (ii) To avoid fraudulent conversion of cheques and other negotiable instruments in case the initial deposit is tendered by cheque and not as cash.
- (iii) To avoid mishandling of accounts, *benami* accounts, deposit of unaccounted money and perpetration of frauds.
- (iv) To facilitate the bank to offer various other services to the depositor such as opening of current account, cheque operated savings bank account, etc., as and when required by him.
- (v) To allow proper legal proceedings, if any, that may arise in the operation of the account.

CUSTOMER SERVICES — MEASURES FOR REDUCING DELAYS

Question No. 9.3.1

Please describe briefly the various procedural steps that have been laid down in the matter of :

- (a) accepting credits to current and savings bank accounts ;
- (b) payment of cheques and drafts ;
- (c) issue of drafts ;
- (d) encashment of travellers' cheques, expressed both in Indian rupees and foreign currencies.

*Summary of Answers :**(a) Accepting credits to current and savings bank accounts :*

The different procedures followed by banks are briefly described below :—

(i) The cash is tendered to the receiving cashier along with the pay-in-slip duly filled in and the counterfoil is returned to the depositor after it is initialled by the cashier and countersigned by the Head Cashier/authorised official (26 banks). A few banks have also authorised the cashiers to issue the counterfoil with their single signature in respect of cash deposits upto specified amounts (3 banks). According to an alternative procedure followed by some of the banks, the pay-in-slip in respect of cash deposit is first presented to an assistant of the Accounts Department who enters the amount in his scroll book and thereafter the cash together with the pay-in-slip is tendered to the receiving cashier, who makes the necessary entry in his scroll and returns the counterfoil to the customer duly initialled. In this case, the Accounts Department can independently verify that all the amounts of cash received by the Cash Department have been properly accounted for (2 banks).

(ii) The cheques, drafts, etc., meant for collection are required to be presented with pay-in-slips to the dealing assistant who checks the particulars and crosses them specially with the bank's crossing stamp after verifying the endorsements, etc. Some of the banks have authorised their assistants to release the counterfoils to the customers with their single initials. (Four banks have specifically stated so in their replies). The other banks require their officers/supervisors to countersign the pay-in-slips, before their release to the customers, after checking the particulars and the instruments.

(b) *Payment of cheques and drafts :*

The steps involved in the most prevalent system for payment of cheques are as under :—

- (i) The cheque is examined by the ledger keeper who issues a token and enters it in the ledger.
- (ii) The ledger with the cheque is sent to the passing official who examines the cheque and the entry, authorises the cheque for payment and passes it on to the cashier after making an entry in his (officer's) scroll.
- (iii) The cashier makes payment on surrender of the token and after making an entry in his scroll.

Certain banks have made a deviation in the procedure for issue of tokens. According to the procedure adopted by them, cheques for cash payment are presented at the token counter where the presenter is required to sign on the back of the cheque before a token is issued to him. Token number is noted on the cheque. Particulars of the cheque and the token are entered in a register by the assistant who sends the cheque with the register to the officer controlling the specimen signatures. After verification of the signature, the register and the cheque are sent to the ledger clerk. The ledger clerk posts the cheque in the ledger and then sends it to the passing officer who gives the pay order after examining the instrument and satisfying himself about the adequacy of the balance. The payment of the instrument is thereafter made by the paying cashier.

Some of the banks have introduced teller system for reducing the waiting time of customers which is dealt with in question No. 9.3.3.

As regards the payment of drafts, the procedure is more or less the same as in the case of cheques. Identification is insisted upon for cash payment as the draft is an order instrument. In the case of non-receipt of relative advice from the issuing branch, payment of the draft is made provided the person is known to the bank.

(c) *Issue of drafts :*

According to the procedure generally followed by banks for the issue of drafts, the remitter presents the draft application form to the dealing clerk who verifies it and adds exchange amount under his initials. The cash is tendered by the remitter to the cashier who affixes receipt stamp under his initials and passes on the application form to the supervisory official. This officer makes an entry in his scroll and issues blank draft form to the clerk after indicating its number on the application. The dealing clerk prepares

the draft along with an advice to the concerned branch and a remittance schedule and makes an entry in the draft issued register. At bigger offices drafts are typed on pin point typewriting machines and amount in figures is perforated thereon by cheque writer to ensure safety against frauds. The draft together with the advice, remittance schedule and draft issued register are thereaftersent to the supervisor for checking and signatures. Normally, the drafts are signed by two officers.

(d) Encashment of travellers' cheques :

The travellers' cheques are paid after scrutinising them for genuineness and after ensuring that the signature of the payee tallies with that recorded on the cheque. The local address of the traveller is noted for future reference. In case, payment is required through a third party, the original purchaser has to sign the cheque at the space provided and endorse it as payable to that party who is required to furnish identification to the satisfaction of the bank before payment is made.

The procedure for payment of foreign currency travellers' cheques is the same as that of local currency travellers' cheques except that the holder is required to produce his passport to establish his identity.

Question No. 9.3.2

Complaints are sometime heard about undue delays in the payments of cheques and drafts and issue of receipts covering credits to accounts and letters of authority. What, in your view, are the reasons? What steps have you taken to ensure maximum customer satisfaction?

Summary of Answers :

11 banks (including a foreign bank and a nationalised bank) have stated that no complaints for undue delays in the payment of cheques and drafts, issue of receipts, etc., are received by them. The reasons for such delays, as advised by other banks, are summarised below:—

- (i) Lack of sufficient credit balance in the depositor's account to meet cheques necessitating enquiries from other departments to ascertain if any further deposits have been received in the account.
- (ii) Improper receipt given by the customers on cheques or drafts or insufficient particulars furnished in the pay-in-slips, etc.
- (iii) Cumbersome procedures mainly devised from safety angle by which an instrument has to pass through a number of stages.
- (iv) Unwieldy size of larger offices on account of diversified services and functions.

- (v) Defective seating arrangement requiring the services of a messenger who frequently attends to the work of more than one section/department.
- (vi) Pressure of work on working days preceded by holidays.
- (vii) Employment of untrained staff at the counters.
- (viii) Indifferent attitude and go-slow tactics adopted by the members of the staff and general fall in the level of their loyalty and sincerity.

The steps taken by the different banks to ensure maximum customer satisfaction include the following :—

- (i) Making proper seating arrangement whereby the ledger keeper, the passing officer and the paying cashier are seated adjacent to each other and dispensing with the need for a messenger to carry instruments.
- (ii) Visits by the branch manager to the Banking Hall to ensure that no customer is put to inconvenience.
- (iii) Introduction of teller system both as regards payment of cheques and issue of receipts.
- (iv) Decentralisation of authority and distribution of work at more counters at bigger offices.
- (v) Delegation of authority to counter clerks to verify signatures and pass cheques for payment upto specified amounts.
- (vi) Mechanisation of operations wherever possible.
- (vii) Augmentation of the staff strength where necessary.
- (viii) Suitably appreciating the work of efficient staff by issue of appreciation letters and discouraging dereliction of duty.
- (ix) Providing training facilities for the new staff.

Question No. 9.3.3

Do you operate the teller system in your bank? If so, please describe the procedure prescribed and list the offices where it is operative.

Summary of Answers :

Out of the 11 banks which were operating the teller system, one foreign bank had introduced it at all of its branches, one bank in the public sector was operating it at 183 branches while the other banks had introduced it at only a few of their branches. While some of the banks have entrusted the teller with the functions of the ledger keeper, passing official and paying cashier, certain others have vested only the first two functions in him. Some of the banks provide the teller with the relative ledger and the specimen signature binder and he authorises or makes payment after verifying the signature and the balance. For this purpose, some banks maintain duplicate record of

ledger account sheets and specimen signature cards. Certain other banks have permitted tellers to make payment upto specified amounts without referring to the ledger or the specimen signature except in cases of doubt. In these cases the tellers are expected to be thoroughly conversant with the accounts allotted to them.

Question No. 9.3.4

Have any studies been made to ascertain the maximum, minimum and mean waiting time of customers? If so, what are the findings?

Summary of Answers :

Data relating to the maximum and minimum time has been furnished by only sixteen banks which is summarised in the following table :—

<i>Waiting time of customers</i>	<i>No. of banks</i>
(i) <i>Minimum period</i>	
Upto 3 minutes	3
,, 5 minutes	11
,, 10 minutes	2
(ii) <i>Maximum period</i>	
5 minutes	1
8 to 10 minutes	5
15 to 16 minutes	5
, 20 minutes	1
25 to 30 minutes	4

One of the nationalised banks has given detailed data relating to the waiting time involved in rendering different services based upon a study made in April 1967 at one of its branches in Madras, as per details given in the following table :—

(Time in minutes)

	<i>Maximum time</i>	<i>Minimum time</i>
<i>Receipt and payment of cash :</i>		
(i) current accounts	16	3
(ii) savings bank accounts	3	1
<i>Issue of demand drafts :</i>		
(i) against payment in cash	34	6
(ii) by debit of party's account	9	8
<i>Encashment of demand drafts</i>		
<i>Issue of telegraphic transfers</i>		
		20

Another nationalised bank has advised that a study was made by it in 1959 at its main office at Bombay and the customers' average waiting time for payment of cheques was found to be 26 minutes. But by adopting measures such as assigning the work of issuing tokens to ledger keepers, increasing the number of payment windows, allotting paying cashiers according to the group of ledgers and making their seating arrangement near the ledger keepers, the waiting time was reduced to 5 minutes. Similarly, one of the scheduled banks had engaged an outside consultant who after making a study at about 15 branches of the bank, had suggested certain measures to reduce the waiting time which, *inter alia*, included introduction of loose leaf ledgers and changing the layout at the branches, *i.e.*, shifting the seat of Accountant near that of ledger keepers. Introduction of these two measures alone has reduced the time for encashing cheques at the bank's branches from 9.5 minutes to 6 minutes.

Question No. 9.3.5

What internal checks operate at your offices to see that customers are attended to promptly? Are these as effective as you would wish them to be? If not, what remedial measures would you suggest?

Summary of Answers :

8 banks have advised that either no internal checks operate in their bank or they are not considered necessary. The important internal checks prescribed by the other banks are indicated below :—

- (i) The staff at the counters is asked to mark the time, when the instruments are tendered by customers, on the reverse thereof. This keeps the employees alert as also enables the Manager to pinpoint the areas where delays have occurred and to take remedial measures.
- (ii) Mobile passing officers are posted at big branches to ensure that customers are attended to promptly.
- (iii) Seating arrangement of the Agent and the officers is made in such a way that counters are visible to them and the customers can have an easy access to them.
- (iv) Managers and other officers at the branches keep a watch over the junior staff dealing directly with the public and make rounds in the Banking Hall especially during rush hours to see that the customers are being attended to promptly.
- (v) Notice boards have been displayed at the branches to inform the customers that in case their work is not completed within a reasonable period (say 15 to 20 minutes), they should approach the Manager/Officer-in-Charge of the department who will attend on them.

- (vi) Suggestions and complaints from customers are attended to promptly.
- (vii) Internal Auditors/Inspectors during the course of their audit/inspection of branches observe and comment on the time taken in handling cash transactions so that corrective measures, where necessary, may be taken.

These measures are generally considered by the banks as effective. However, a few of the banks have suggested the following further remedial measures :—

- (i) Sense of duty may be inculcated amongst the staff so that they may realise the need to give prompt attention to customers.
- (ii) Public relation officers may be posted at bigger branches to extend personalised service to customers.

Question No. 9.4.1

Complaints are sometimes heard about long delays (a) in effecting transfers of customers' accounts from one branch to another and (b) the realisation of cheques and other negotiable instruments entrusted for collection. What, in your view, are the factors which cause these delays and what steps would you consider feasible to improve the position ?

Summary of Answers :

Of the 64 banks which have replied to the question, 8 banks have either not offered any specific comments or have stated that such complaints are not received by them. The comments offered by the other banks are analysed as under :—

- (a) *Transfer of customers' accounts from one branch to another :—*

Factors which cause the delays :

- (i) Non-compliance by the customers of the requirements, i.e., non-return of the unused cheque leaves, pass book, etc., to the transferor branch along with their request letters for transfer of accounts.
- (ii) Request letters from customers for transfer of accounts being passed on to the ledger keeper/supervisor without diarising and lack of a proper follow-up system to keep a track of such matters.
- (iii) Delay at the transferor branch in passing entries and in the despatch of advice regarding remittance of balance amount together with other documents such as account opening form, specimen signature sheet, etc.

- (iv) Delay in transit mostly due to postal inefficiency.
- (v) Giving low priority to advices for transfer of accounts at the receiving branches.
- (vi) Human factors such as shortage of staff compared with heavy workload at metropolitan city offices, comparatively inexperienced staff on account of rapid branch expansion and irresponsible attitude of the staff regarding discharge of their allotted duties.

Steps considered feasible to improve the position :

- (i) Taking prompt action by the transferor branch on the letters for transfer of accounts and ensuring that the advices in respect of transfer of funds are promptly despatched along with other connected documents relating to the accounts.
- (ii) Asking the customer to issue a cheque for the entire balance in the account with instructions to transfer the balance to the desired office. As the cheque will have to be dealt with before the close of the day's transactions, the advice relating to the transfer of account will be sent to the transferee office either on the same day or at least on the next day.
- (iii) Instituting an efficient system of diarising and follow-up.
- (iv) Augmenting the staff strength and bringing about co-ordination amongst the relevant sections.
- (v) Providing some simple and stringent measures in the Bank Award to check the growing indiscipline and inactiveness of the staff.

(b) *Realisation of cheques and other negotiable instruments entrusted for collection :*

Factors which cause the delays :

- (i) Complicated and defective procedures followed for collection of bills.
- (ii) Delay in despatch of the instruments by the remitting office.
- (iii) Time taken in transmission of the instruments especially when sent by registered post due to postal inefficiency.
- (iv) Lack of effective control over the inward dak.
- (v) Delay in handling and presentation of the instruments at the collecting office and more so in cases where the collecting office is a branch of another bank over which the remitting office has no control.

- (vi) Detention of the instruments by the collecting office at places not served by a clearing house.
- (vii) Want of timely follow-up by way of fatec enquiries whereby even loss of instruments in transit is at times lost sight of.
- (viii) Carelessness in preparing and despatching the realisation advices at the collecting office.
- (ix) Delay in passing entries after receipt of realisation advices.
- (x) Indifferent and lethargic attitude of the banks' staff coupled with complicated provisions for taking disciplinary action against them.

Steps considered feasible to improve the position :

- (i) Prompt despatch by the collecting branches of the realisation advices and issue of intimation by telegram in case of larger realisations, say above Rs. 25,000.
- (ii) Taking up the matter with the collecting branch/bank promptly if intimation relating to the fate of bills is not received by the remitting office within a reasonable time say within 10 days from the date of despatch and making arrangement to get the fate by telegram in respect of bills for large amounts.
- (iii) Staggering the working hours at the remitting office so that the outstation instruments received for collection are processed and despatched to the collecting office by the following day.
- (iv) Negotiation by the remitting office of the instruments tendered by constituents for collection upto certain amounts.
- (v) Adoption of the courier system as recommended by the N.I.B.M. to facilitate presentation of outstation cheques through clearing at the drawee offices on the very next day.
- (vi) Efficient clearing house operations.
- (vii) Making postal system efficient in clearing, transmitting and delivery of mail.
- (viii) Organising operational training and stepping up of training in customer service.
- (ix) Rationalisation and simplification of procedures and evolving a simple form of Giro Transfer System suitable to banks.
- (x) Close and effective supervision by the sectional officers over the receipt and disposal of the dak and the instruments received for collection locally or by post.

(xi) Proper staffing of the branches, making provision of some simple and punitive measures in the Bank Award against negligent workers and enlightenment of the staff by the labour unions about the fact that higher emoluments have some relation with production and efficiency.

DEPOSIT ACCOUNTS—LEDGERS, STATEMENTS OF ACCOUNT, PASS BOOKS AND RECORDS

Question No. 9.5.1

Is the system of loose leaf current account/savings bank account ledgers prevalent in your bank? If so, in how many offices has this been introduced and what procedure has been laid down in regard to the maintenance and safety of records? Do you intend extending this to your other offices?

Summary of Answers :

The system of loose leaf current/savings bank account ledgers was prevalent in 27 banks, 11 of which stated that the system had been introduced at all their offices.

The loose leaf ledger cards, when received from printers, are checked and entered in a register. All the cards are duly signed by an authorised officer. Blank cards remain in the custody of the officer-in-charge and are issued to the ledger keeper against his signature in the register. The ledger binders are fitted with locking arrangement and the keys are held by the officer-in-charge. Unlocking either for inserting new sheets or for removing old sheets is done in the presence of the officer-in-charge. The ledger keepers are made responsible for the proper maintenance of the binders during office hours. Overnight, the binders are kept in steel cupboards or fire proof strong room under joint custody. Only officers of the bank have access to the ledgers besides the ledger keepers. Each account is provided with a master card which contains the serial numbers of the sheets used as also the period covered by each sheet. The master card binder remains in the custody of the officer-in-charge and is kept locked when not in use. These cards ensure that sheets are not fraudulently inserted or removed from the ledgers. A physical count of loose leaf ledger cards is made from time to time in conjunction with normal balancing work. Completed sheets remain in the custody of the officer-in-charge arranged accountwise in a separate file. The written up cards are bound accountwise in chronological order by different banks at periods varying from six months to two years.

Question No. 9.5.2

From your experience, please state what the advantages/disadvantages are in maintaining current/savings bank accounts in loose leaf form rather than in conventional ledgers.

Summary of Answers :

The advantages and disadvantages of maintaining current accounts and/or savings bank accounts in loose leaf ledgers as indicated by banks are summarised as under :—

Advantages :

- (i) Maximum number of accounts can be opened in these ledgers as loose sheets, when required, can be inserted and there is no necessity of leaving a sizeable number of blank pages for the accounts having large operations.
- (ii) Arrangements of accounts alphabetically or otherwise is rendered easy as additional leaves in heavily operated accounts can be inserted.
- (iii) Important instructions for an account are mentioned on a permanent sheet, which need not be repeated on each new page.
- (iv) Optimum use is made of the sheets resulting in economy of stationery and consequent reduction in cost.
- (v) Taking down of debit and credit summations is rendered easier as the entries made in loose leaf folios are half that of those made in bound ledgers.
- (vi) Opening of new ledgers every half-year/year is dispensed with which saves the labour involved in carrying over all the accounts with complete details to new ledgers.
- (vii) This system is a pre-requisite to mechanisation as with the introduction of mechanisation it would be impossible to post entries in conventional ledgers.
- (viii) In machine posted loose leaf ledger system, statements of account can be readily made available to customers.
- (ix) This system provides for keeping all the sheets of a particular account together right from its inception to its closure.
- (x) There will be fewer balance books as the loose leaf ledgers will contain more number of accounts when compared with conventional ledgers. Fewer officers will also be deployed for daily checking work.
- (xi) The number of ledgers are considerably reduced by retaining only operative accounts as also by removing used leaves of operative accounts to separate files. These handy and light ledgers will be convenient to handle, which will lead to operational efficiency. The ledgers can be divided and entrusted to more persons during rush hours.

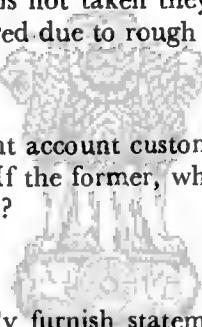
- (xii) The ledgers will cover less space on counters as also in the fire proof cabinets and strong rooms.
- (xiii) Rebinding of ledgers is eliminated as is the case with conventional ledgers when their folios come out and/or binding becomes loose.
- (xiv) These ledgers are more suitable at branches where large number of accounts are to be handled.

Disadvantages :

- (i) The loose leaf ledger binders are of considerable weight which makes their handling inconvenient.
- (ii) There are chances of unauthorised insertion or removal of sheets as also of their misplacement if due care is not taken.
- (iii) Leaves of these ledgers are not so durable as of bound ledgers and if due care is not taken they may become easily torn or otherwise damaged due to rough handling.

Question No. 9.6.1

Do you furnish your current account customers with pass books or periodical statements of account? If the former, what is the procedure for bringing the pass books up-to-date?



Summary of Answers :

The bigger banks generally furnish statements of account to customers while smaller banks issue pass books to them. Some of the banks leave the choice to the customers.

45 banks have advised the procedure followed by them for bringing the pass books up-to-date. 25 of these have not prescribed any specific period and pass books as and when tendered by the customers are brought up-to-date; 10 banks complete and return them to the customers on the spot. While 14 banks request their customers to present the pass books at periods varying from one week to one month, five banks advise the customers to present them at frequent intervals to avoid posting of large number of entries at a time; two banks issue reminders to their customers when the pass books become overdue for completion. A number of banks deploy special staff to complete the accumulated pass books. Two banks have stated that they return the pass books duly completed within a week of their receipt.

Question No. 9.6.2

How often are statements of account normally supplied to customers and what steps are taken to ensure that these are written up neatly and ac-

curately and despatched without any delay? Are you satisfied that the standard of service provided by your bank in this regard leaves nothing to be desired? If not, please indicate the areas in which improvement is needed and the steps taken to improve the position.

Summary of Answers :

Most of the banks supply statements of account at monthly intervals. However, at the request of the customers or in respect of accounts having heavy operations, statements are submitted at weekly or fortnightly intervals.

A few banks have introduced mechanisation whereby neatly typed statements are supplied to customers, while certain others have posted clerks with good handwriting to prepare the statements. 32 banks have advised that they are satisfied with the standard of service provided in this regard. However, 3 banks feel that an ideal solution would be to mechanise the ledger posting operations whereby neatly typed statements of account would be available simultaneously.

Question No. 9.3.6

How long do you preserve cheques on the accounts of your customers paid by you? What is the cost of preserving them? What are your views on substituting the present system by one in which only a micro-film record is maintained in your office and the relative cheques are returned to customers?

Summary of Answers :

59 banks have specifically stated the periods upto which they preserve the paid cheques of their customers which vary widely as indicated in the following table :—

Cheques preserved for	No. of banks
3 years	1
5 years	2
6 years	1
7 years	1
8 years	19
10 years	16
12 years	7
12 to 15 years	2
20 years	1
Indefinite periods	9

No bank has made any study in regard to the cost of preserving the cheques. However, one of the foreign banks has estimated the cost of storage

at Rs. 0.05 lakh per year while a bank in the public sector has estimated it at Rs. 1.25 lakhs.

As regards the introduction of the system of microfilming the paid cheques and their return to customers, 22 banks have offered no comments, while 20 banks consider its cost exorbitant. Only 15 banks have favoured its introduction provided the cost is not comparatively high and the micro-filming equipment and films can be obtained at a reasonable cost.* While two banks in the public sector have suggested that this system can be introduced on an experimental basis at branches located in metropolitan towns, a foreign bank has advised that such a system is allied to mechanisation and computerisation.

COMPLAINTS FROM PUBLIC

Question No. 9.7.1

How are complaints regarding the quality of service dealt with in your bank?

Summary of Answers :

According to the procedure generally followed by banks, the complaints received at the branches are attended to by a senior officer or the branch manager. In regard to the complaints received at the head office, comments of the branch managers are obtained and serious allegations, if any, are enquired into by deputing an officer from the head office. Acknowledgement of the complaint is immediately sent to the complainant. If the enquiry justifies the complaint, suitable action is taken to rectify the situation and to avoid recurrence of the incident as also against the erring officials. Where felt necessary, internal procedures and/or operations are modified to improve the quality of service. Suitable apology is also sent to the complainant. One of the public sector banks periodically invites public suggestions and criticism as regards the quality of its service through the medium of newspapers while another bank in that sector analyses the complaints received and advises the branches about the steps to be taken to avoid them. One scheduled bank maintains a suggestion book at its branches for receiving complaints and suggestions while one non-scheduled bank proposes to introduce such a book.

Question No. 9.7.2

What are the various services provided by your bank in regard to which complaints are received most frequently? Could these be listed in order of frequency?

* It is gathered that neither the microfile machines nor microfilm rolls are manufactured in India and they have to be imported. There does not seem to be any difficulty in getting an actual users' import licence. The cost of 16 MM portable machine is stated to be about Rs. 0.31 lakh while that of the magnifier (which enables the reading of the microfilm as also taking a paper copy of any particular image) is about Rs. 0.34 lakh. The operation of the machine does not require much expertise. On the basis of the information available, it appears that the cost of filming the cheques, taking into account the labour and other charges involved, would be about 2 paise per cheque.

Summary of Answers :

The complaints received by Indian banks in order of their frequency are as under :—

- (i) Delay in collection of outstation cheques and bills or prompt return thereof in case of non-payment.
- (ii) Delay in encashment of cheques and issuing of drafts.
- (iii) Delay in despatch of statements of account and pass books.
- (iv) Delay in giving effect to standing instructions.
- (v) Discourteous behaviour of staff.
- (vi) Non-acceptance of small denomination notes.
- (vii) Payment of cash in small denomination notes.
- (viii) Excess charges levied for services rendered.
- (ix) Delay in transfer of accounts and funds.
- (x) Refusal to entertain transactions after scheduled working hours in case of small branches.

In regard to the foreign banks, the order of frequent complaints was as under :—

- (i) Delay in collection of outstation cheques and bills.
- (ii) Multiplicity of exchange control formalities.
- (iii) Encashment of cheques.
- (iv) Delay in despatch of statements of account.

Question No. 9.7.3

It is sometimes stated that standard of service provided by commercial banks has tended to progressively deteriorate. Would you state that there is substance in this? If so, in which areas has there been deterioration and what, in your view, should be the remedial measures?

Summary of Answers :

Out of the 61 banks which have offered comments on this question, 21 banks have stated that there is no substance in the allegation that services rendered by commercial banks are not satisfactory, while the remaining 40 banks feel that the standard of service provided by commercial banks has tended to progressively deteriorate. Only three banks have identified the

areas where there has been deterioration. According to them these areas are :—

- (i) Payment of cheques.
- (ii) Issue of drafts.
- (iii) Bills for collection.
- (iv) Submission of statements of account.
- (v) Completion of pass books.
- (vi) Staff behaviour towards customers.

The deterioration is stated to be caused by general lack of understanding and apathy on the part of the employees who are conscious only about their emoluments and privileges, failure of the staff unions to impress upon the members about their duties to the employer and the public, reluctance on the part of the management to deal firmly with staff for fear of staff agitation in view of increased bargaining power of staff unions, enormous expansion of banks' services in recent years coupled with paucity of trained personnel, lack of promotional avenues and postal delays. The remedies suggested by banks widely differ but may be broadly classified as under :—

- (i) Recruitment of people with a spirit of service and giving them promotions strictly on the basis of their merit.
- (ii) Agreements with staff unions incorporating a pledge to maintain a high standard of service.
- (iii) Amendment in labour laws empowering the authorities to take action against erring employees.
- (iv) Imparting training in practical banking both to fresh recruits as also to existing staff and improving their job attitudes.
- (v) Simplification and rationalisation of procedures and forms to make the banking service easily understandable.
- (vi) Provision of teller system at a larger number of offices especially in bigger towns.
- (vii) Adoption of modern methods of automation and mechanisation.

REMITTANCE FACILITIES

Question No. 9.8.1

What special facilities does your bank offer to customers for remittance of funds and purchase of cheques ?

Summary of Answers :

(a) Special facilities for remittance of funds provided by banks include :—

- (i) free transfer of funds allowed to current and savings bank depositors upto specified amounts (maximum limits placed by different banks vary between Rs. 1,000 and Rs. 10,000 per day) (24 banks);
- (ii) concessional rates of remittances to valued customers (14 banks);
- (iii) issue of travellers' cheques at par (2 banks);
- (iv) transfer of funds by telex (at branches where this facility is available) (4 banks);
- (v) free transfer of funds in respect of defence personnel (1 bank).

(b) As regards the purchase of cheques, certain banks issue courtesy cards to approved customers which enable them to encash their cheques at par at any branch of the bank. A nationalised bank allows its selected customers to draw against cheques received for collection in anticipation of their realisation. Most of the banks collect at par cheques drawn on places where they have their branches. In regard to cheques drawn on other places they recover from the constituents only the charges levied by the collecting agency. Some of the banks have arrangements with certain companies to encash at par at their branches the cheques and dividend warrants issued by these companies. Like remittance of funds, concessional rates for purchase of cheques are also allowed by most of the banks to valued customers.

Question No. 9.8.2.

Do you consider that the present system available to the public for remittance of funds from one centre to another through the banking system operates quite satisfactorily? If not, in what respect is improvement necessary and what steps would you advocate to achieve improvement?

Summary of Answers :

While 51 banks have stated that the existing system of remittance facilities operates satisfactorily, 4 banks do not subscribe to this view. (The other banks have not expressed any definite view). The difficulties from which the public suffers, as indicated by the banks, relate firstly, to the delay in postal transmission of drafts and other instruments of remittance of funds such as mail transfer advices, telegraphic transfers, etc., and secondly, to the rigid procedures followed by banks in making payment of drafts. The main

suggestions to bring about further improvements in the remittance facilities made by the banks are summarised below :—

- (i) A system for free drawings between nationalised banks, State Bank of India and its subsidiaries should be instituted.
- (ii) More branches should be opened by banks in rural and unbanked centres.
- (iii) Telephone or teleprinter should be increasingly used for effecting quick transfer of funds at least between major centres.
- (iv) Procedure for payment of bank drafts may be made less rigid.
- (v) Efficiency of the Post and Telegraph Department may be toned up.

Question No. 9.8.4

In view of the delays experienced at present by members of public in making payments through the banking system, would it be feasible to introduce a Giro System operated (a) by the banks or (b) through the post office ?

Summary of Answers :

(a) Only 31 banks have expressed their views on the utility of introducing a Giro System and/or the agency through which it should be operated. Of these, only a few banks have given arguments in support of their views. While 16 banks have favoured the introduction of a Giro System operated upon by banks, four banks desire it to be operated upon through post offices ; 11 banks have expressed doubts about the utility or the feasibility of introducing the system in the country.

The banks which have expressed doubts about the utility and/or the feasibility of the system in the country have adduced the following arguments :-

- (i) The Giro System virtually aims at eliminating the use of cash except for small day-to-day operations. The banking habit in India is, however, still in a formative stage and the practice of making payments by transfers between accounts is not very much in vogue. The time is not, therefore, opportune for introduction of the system in the near future.
- (ii) Giro System requires a complete network of branches throughout the country, centralised system of accounting and quick communication facilities between different centres which are non-existent at present.

(iii) As regards a postal Giro, it requires a far more efficient organisational framework than is existing in the country at present. The success of the Giro System depends upon computerisation and linking of the post offices to the centralised computer whereby the transmission of information as well as accounting becomes very swift. This would require very heavy capital outlay.

(b) The alternative remedies suggested by banks to eliminate delays in making payments through the banking system include :—

- (i) wide network of branches to cover the unbanked centres in the country ;
- (ii) rationalisation of procedures with a view to eliminating delays ;
- (iii) drawing arrangements between different banks to facilitate quick transfer of funds ; and
- (iv) introduction of the courier system as envisaged by the Indian Banks' Association.

ANNEXURE IV—PART III

Analysis of replies received from commercial banks to certain other questions relating to bank procedures issued by the Banking Commission.*

DELEGATION OF POWERS

Question No. 1.8.1

Below the Board/Local Board/Committee level is there a system of delegation of powers in your Bank ? If so, give a brief account of the levels down to which powers are delegated purpose-wise and the extent of powers delegated to each authority.

Question No. 1.8.2

Do you contemplate any changes in the system ? If so, for what reasons and what type of changes are contemplated ?

Summary of Answers :

Out of 52 Indian banks which have replied to the question, only 3 banks have no system of delegation. Powers have been delegated to various officials, i.e., chairman, other executives at head office, regional managers and branch agents/managers. Delegated powers relate mostly to grant of advances and incurring of expenditure.

* Different parts of the questionnaire were answered by a varying number of banks ranging between 51 and 74.

45 banks have stated that they do not contemplate any change in their system of delegation. 9 banks which are contemplating changes have given the following reasons :—

- (i) Special powers are proposed to be granted to officials at selected branches for expediting sanction of credit limits to agriculturists and small scale industries.
- (ii) There is a proposal to grant increased powers to senior officers at middle management level to reduce excessive centralisation.
- (iii) It is proposed to reclassify branches for the purpose of fixing delegation of powers on the basis of overall business potential.

Question No. 1.8.3

If there is no delegation in your bank who takes the decisions ? The Board of Directors or the Chief Executive ? If so, how is it ensured that there is no undue delay in the decision-making process ?

Summary of Answers :

The replies can be classified as under :—

- (i) One foreign bank has stated that all decisions are taken by its Chief Executive.
- (ii) In the case of another foreign bank no difficulty is stated to arise as the organisation is small.
- (iii) Chief Executive Officer of one non-scheduled bank takes decisions in consultation with the Chairman or one of the other directors.
- (iv) In the case of two other banks (both Indian scheduled), decisions are taken by the Board of Directors. The delay in decision-making is avoided by them by holding the meetings of the Board at frequent intervals.

Question No. 1.8.4

If a scheme of delegation is in force in your bank what information/returns are called for periodically to ensure due exercise of the delegated powers ? Proformae of the periodical returns may kindly be furnished. What use is this information put to by the Head Office ?

Summary of Answers :

In order to keep a watch over the exercise of discretionary powers, the following measures are adopted :—

- (i) Some of the banks request the branches to report the particulars of advances sanctioned on each day by listing them in a return. Certain others call for copies of sanctions.

- (ii) Certain banks call for a statement of advances granted under the discretionary powers ; in some cases this return is monthly, in certain others it is quarterly, while some of the banks obtain it at more frequent intervals, *i.e.*, weekly/fortnightly.
- (iii) Other banks do not call for statements of advances granted by branch agents in exercise of the discretionary powers vested in them. The use of discretionary powers is, however, watched from the periodical statements of all outstanding advances.

These returns are generally scrutinised by the regional office/head office to see how the discretionary powers have been exercised and to bring the irregularities, if any, to the notice of the branches for rectification. A few banks also use this information to review the discretionary powers granted and to know the trend of business. Some banks place this data before their Boards of Directors for information.

Question No. 1.8.5

Is the information called for above excessive/sufficient/inadequate ? Do you have a system of periodic review of the returns called for to test their utility ?

Summary of Answers :

Almost all the banks have stated that the information that is being called for by them from the branches is sufficient. One bank has, however, indicated that the information called by it is excessive and another bank that it is not sufficient. One bank, which has recently revised the system, has stated that it would be too early to judge about its adequacy.

30 banks have a system of periodically reviewing the returns. Some other banks review the returns whenever deemed necessary.

Question No. 1.8.6

Calling for information/or fear of accountability may unduly fetter the exercise of the delegated powers. If so, what measures have been adopted for ensuring judicious exercise of the delegated powers ?

Summary of Answers :

21 banks do not feel that calling of information/or fear of accountability fetters the exercise of delegated powers. One bank has assured the branch agents that so long as the powers were used as per head office instructions without *mala fide*, they would not be held personally responsible. Certain

other banks have stated that general policies of the bank have been advised to the branch agents and these are, time and again, impressed upon them through circulars, training and conferences and that the agents are, therefore, expected to use their powers judiciously ; if any instance of non-exercise of delegated powers comes to the notice of the head office, the matter is taken up with the official concerned. A few banks have added that this matter is looked into during the periodical inspection of branches.

Question No. 1.9.1

What is the basis on which you fix limits upto which a Branch Manager can sanction a loan without approval from the higher authorities ?

Summary of Answers :

The basis differs from bank to bank. One or more of the following factors are taken into account by the banks for fixing such limits. The figures in brackets indicate the number of banks which take these factors into account.

- (i) Volume and type of business at the branch and business potentiality (22).
- (ii) Type of clientele (13).
- (iii) Population of the place and its economic and commercial importance (7).
- (iv) Experience, ability and seniority of the concerned officer (15).
- (v) Category of the branch (13). (It has been explained that the branches have been divided into different categories on the basis of various factors such as nature of business, age of the branch, level of advances, etc.).

Question No. 1.9.2

Are the powers of a Branch Manager to grant credit fixed with reference to the requirements of the borrowers in the area of operation of the branch concerned ? If so, what criteria are taken into account for this purpose ?

Summary of Answers :

23 banks have stated that they fix the powers of the Branch Managers to grant credit with reference to the requirements of the borrowers in the area of operation. This is done by them on the basis of one or more of the following criteria :—

- (i) Nature and quantum of credit requirements;
- (ii) Pattern of business; and
- (iii) Potentiality for increasing advances.

One nationalised bank has stated that survey of local business is undertaken before fixing powers. 15 banks have stated that while fixing the powers of branch agents to grant credit, the requirements of the borrowers in the area of operation are not specifically taken into account.

Question No. 1.9.3

What factors are taken into account when the powers of a Branch Manager are either enhanced or reduced ?

Summary of Answers :

This question has been answered by 34 banks only. Most of the banks have stated that enhancement of powers depends upon the volume of business at the branch. The other reasons mentioned are as follows :—

- (i) economic improvement/deterioration of the area,
- (ii) expertise gained by the branch manager, and
- (iii) the manner in which powers were used in the past by the manager.

ORGANISATION AND METHODS

Question No. 4.1.1

Do you have in your bank a separate unit/cell/department working solely on Organisation and Methods? If so, when was it established? What has been its contribution in improving the working of your bank? Do you in addition consult outside specialists in Organisation and Methods? If so, for what purposes?

Summary of Answers :

Out of the 74 banks, which have answered the question, 14 banks (12 banks from the public sector, one foreign bank and one Indian bank from the private sector) have separate O. & M. Departments in India. In most of these banks the department was started after 1963. The suggestions made by the department for simplification of procedures were found to be useful by all the banks.

Out of the banks which have O. & M. Department, only five considered it necessary to consult outside specialists. The suggestions made by the specialists were found practicable by the concerned banks except one which has stated that although the recommendations of the outside consultants were useful they were difficult to put into practice as the cost of implementing them would have been heavy.

Question No. 4.1.2

In case you do not have a separate unit/cell/department for Organisation & Methods, do you consult outside specialists on Organisation and Methods? What was the most recent date when they were consulted? Did you find their report useful? How far have you been able to implement it? If you came across any difficulties in implementation, please describe them briefly.

Summary of Answers :

Of the banks which do not have separate O. & M. Department, only three have stated that they had occasion to consult outside specialists on O. & M. matters. While two of them have not advised when they sought such consultation, one bank has indicated that the outside agency was consulted by it in 1962. Two of the above three banks have stated that many of the suggestions made by consultants were either not found useful or presented difficulty in implementation.

Question No. 4.1.3

In case you have neither an Organisation and Methods unit/cell/department nor regular consultations with outside specialists, do you make any other systematic effort to improve the working of your bank? If so, please describe what is done.

Summary of Answers :

The answers to this question are varied. Some of the banks have stated that improvement in working is brought about by devising measures to rectify the shortcomings pointed out by internal and external auditors during their audit, by the Reserve Bank of India during its inspection and by head office officials during their visits to branches. Conferences of branch agents are organised by some of the banks from time to time to discuss, *inter alia*, the procedural matters. Certain others send their officials to bigger banks for training. Retired officers of large banks are also employed by certain banks to improve the standard of working.

Question No. 4.1.4

Is there any system in your bank of obtaining suggestions from your employees as to ways of improving services? If so, please describe the system and state how these suggestions are dealt with.

Summary of Answers :

Ten banks from the public sector, six foreign banks, nine other scheduled banks and two non-scheduled banks have a suggestion scheme. The suggestions received are examined by the O. & M. Department or by a Committee of officials. Majority of these banks reward the staff for good suggestions which can be put into practice.

Seven banks do not have a regular suggestion scheme, but if suggestions are voluntarily received from the staff they are given due consideration. Certain other banks have stated that the suggestions received from agents or in conferences are carefully examined.

COMMUNICATIONS

Question No. 6.1.1

Have you developed a system of personal contacts of Branch Managers with top level management? If so, please describe the system.

Summary of Answers :

Of the 60 Indian banks which have replied to the question, 50 banks have stated that they encourage personal contacts between the Branch Managers and the top level management by holding periodical conferences and seminars and arranging visits of head office officials to the branches and interviews of Branch Managers with the top executives. Other banks do not have a regular system as such for the purpose, but occasional discussions between the Branch Managers and the head office officials do take place.

Question No. 6.1.2

Do the chief executives of your bank/senior officials of the administrative office periodically visit all your branches, discuss problems with your managers, meet constituents, hear their grievances, explore possibilities of avenues for development of business? If so, how often is a branch visited — twice a year, once a year, once in two years?

Summary of Answers :

All banks, except two, have stated that their chief executives/senior officials periodically visit the branches. According to some of them, the frequency of such visits should depend upon the exigencies of the situation. The general view, however, is that the visits should be paid once or twice a year according to the nature of business at the branch.

Question No. 6.2.1

Do you have a system for the regular transmission of statistical and other information relevant to the working of your branches? Please give details about the type of information transmitted.

Summary of Answers :

Most of the banks in the public sector and foreign banks have a regular system of obtaining statistical and other information relating to the working of the branches while many banks in the private sector do not have such a system. The information called for mainly relates to deposits, advances and profit and loss account and is obtained through periodical returns; a few large banks, however, also obtain information regarding staff and premises.

The information and the statistical data, after processing by the Economic Intelligence/Statistics/Development department, are submitted to the top officials as a review of the progress made by the concerned branch.

Question No. 6.2.2

Do you in addition call for regular as well as *ad hoc* reports from your Branch Managers and heads of departments to obtain an overall assessment of the working of the bank? If so, please describe them briefly. At what level are these reports studied and policy actions, if any, taken?

Summary of Answers :

In respect of this question also, banks in the public sector and foreign banks have generally a system of calling for periodical or *ad hoc* reports from branch managers regarding the working of the offices under their charge. Some of the Indian banks in the private sector also have a system for the purpose.

The reports are scrutinised at the head office and put up either to the Chief Executive Officer or to the Board of Directors for information and discussion after which the head office advises the branches concerned about the action to be taken by them.

Question No. 6.3.1

How do you ensure that the various measures taken by the authorities like the Reserve Bank of India, Government of India, State Governments and institutions like Industrial Development Bank of India, Agricultural Refinance Corporation, etc., which are of interest to your bank are made known to the appropriate officials in your bank?

Summary of Answers :

The various measures are made known by the banks to their officials by issuing circulars from time to time.

Question No. 6.3.2

Do you take any special steps to ensure that the officials concerned understand fully the implications of these measures? In particular, do you arrange for group discussions or meetings to explain the various measures and to study their impact on the working of your bank?

Summary of Answers :

The various special steps taken by banks can be classified as under:—

- (i) Covering letters explain the main points.
- (ii) Important issues arising from these measures are discussed in conferences and seminars.
- (iii) If any clarifications are obtained from the appropriate authorities, further circulars are issued.
- (iv) Branch Managers are encouraged to seek clarification in case they have any doubt.

Question No. 6.4.1

Do you have a system of imparting information regularly to the lower level management about the results of various studies carried out in your bank?

Question No. 6.4.2

Is there a follow-up to find out whether the working of branches has improved thereby?

Summary of Answers :

The manner of passing on the information to lower levels is through circulars, demi-official letters, publication in news bulletins and by discussion in seminars and conferences. The follow-up is carried out through internal inspections and visits of senior officials to branches.

ACCOUNTING OF INTER-OFFICE TRANSACTIONS

Question No. 18.1.1

Please describe the set-up operative in your bank for settling inter-office transactions. Is any part of the accounting system mechanised/computerised? If so, in which directions and how beneficial has it been in the expeditious settlement of inter-office transactions?

Summary of Answers :

Most of the Indian banks have a centralised system of accounting for putting through inter-office transactions. Only one Indian bank (a non-scheduled bank) and some foreign banks have a mutual accounting system.

Three banks (all from public sector) have reported that they are taking the assistance of computer for accounting and reconciling inter-branch accounts. Five other banks (three nationalised and two foreign) have been using other machines for the purpose. Experience of the banks which have mechanised and/or computerised the accounting system shows that the switch over from manual to mechanical / electronic handling of the work has helped them in reconciling the transactions in less time and also in expeditious follow-up of the outstanding entries.

Question No. 18.1.2

Would you favour the clearance of inter-office transactions at one place or would you prefer decentralisation of the work for quicker reconciliation of transactions? Please give the reasons of your choice.

Summary of Answers :

Four nationalised banks, three foreign banks and four other banks favour decentralisation of inter-office transactions. The reasons given by them in support of their view, however, differ. Foreign banks prefer decentralisation because they have only a few branches in India and in the existing set up of their branch network mutual accounting system works better than the centralised system. The Indian banks which favour decentralisation are generally of the view that centralisation may not work smoothly when a bank has a large number of branches and in such a case regionwise decentralisation would be preferable. Most of the banks which have replied to the question are, however, in favour of complete centralisation and the reasons given by them in support of their view are as under:—

- (i) Centralisation ensures effective control.
- (ii) Computerisation/mechanisation is easier to adopt in the centralised system.

- (iii) Reconciliation is easier under the centralised system.
- (iv) Decentralised system is more costly.
- (v) It is easier to detect frauds under the centralised system.
- (vi) Overall position of the accounts is immediately available under the centralised system.

Question No. 18.2.1

An efficient system of inter-branch clearing is necessary to prevent/tracee frauds. What has been done in your bank to ensure that the system is fully efficient ?

Question No. 18.2.2

Again, the procedure laid down for inter-branch clearing may hamper the expeditious putting through of entries relating to customers' accounts, e.g., late crediting of mail transfers, proceeds of cheques under collection, etc. What has been done in your bank to ensure that entries are put through without delay ?

Summary of Answers :

The methods adopted by the banks for prevention of frauds, as indicated in their replies, are as under :—

- (i) Weekly reconciliation is done at the head office and prompt enquiries regarding outstanding entries are made.
- (ii) Accounts Department is required to periodically report the position in regard to reconciliation to the Board.
- (iii) Inter-branch accounting work is attended to expeditiously with the aid of machines/computer.
- (iv) Items pending over one month are looked into carefully.

As regards the affording of prompt credit in respect of mail transfers, collection of bills, etc., the following measures are adopted :

- (i) The head offices of banks have instructed the branches to send realisation/credit advices promptly.
- (ii) The dates of responding entries are watched by Inter-branch Accounting Section at the head office.
- (iii) Branches are reminded in respect of outstanding entries.

CLEARING HOUSES

Question No. 19.1.1

Have you any suggestions for improving the working of Clearing Houses ? What amendments, if any, to the Rules of Clearing Houses, have you to suggest ?

Summary of Answers :

Suggestions have been made by only a few banks and more important of these are listed below. Other banks have either stated that they have no suggestions to make or that the present clearing arrangements are satisfactory:-

- (i) More clearing houses should be established so that all major cities are covered by clearing facilities.
- (ii) During the times of labour troubles, officers should attend to clearing house work.
- (iii) Courier system should be adopted.
- (iv) Non-scheduled banks may be allowed to become members of clearing houses.
- (v) Clearing house timings should be suitably changed.
- (vi) Banks with large number of branches in a city should introduce home clearing system.

Question No. 19.2.1

Is the time given for returning cheques presented through clearing sufficient ? If not, in which directions do you face difficulties ? Have you any suggestions for improvement ?

Summary of Answers :

Twenty banks find the present timings for returning cheques sufficient while fourteen banks do not find them adequate.

The suggestions made are :

- (i) The time for returning cheques through the clearing should be suitably extended.
- (ii) There should be only one clearing a day and the returned cheques may be presented on the next working day.

One of the small banks has incidentally suggested that cash may be accepted for the clearing adjustments after office hours, if such an occasion arises.

INTERNAL INSPECTION/AUDIT

Question No. 23.2.1

What is the set up in your bank for the internal inspection/audit of your offices ? Is the controlling department centralised or do you have regional establishments ?

Summary of Answers :

The Indian banks generally have their inspection/audit departments centralised at the head office. Two of the banks have circle/zonal audit cells at suitable centres besides the Inspection Department at the head office.

Most of the foreign banks have indicated that they do not have any regular system for internal audit of branches by the head office. However, in the case of some of these banks, each branch has an independent audit section. In the case of a few other banks occasional inspections are carried out by teams deputed by their head offices.

Question No. 23.2.2

Does your bank make a distinction between an inspection and an audit of your branches ? If so, what is the respective scope of inspections and audits ?

Summary of Answers :

This question has been answered by 46 banks and their interpretation differs widely. Some of the banks feel that audit is an exhaustive and thorough check whereas inspection is only a test check and general review of the working of the branch. Certain others are, however, of the view that while audit confines to year-end accounts, inspection is more comprehensive as it relates to all aspects of procedures and practices. Another type of distinction between audit and inspection has been made by some of the public sector banks. In their view, whereas audit covers verification of cash, securities and other valuables, examination of books and scrutiny of securities for advances, inspection is something more as it, in addition, covers investigation of outstandings, business profits, charges, reports on staff, etc.

Question No. 23.3.2

At what intervals are your branches inspected/audited ? What is the criteria for the periodicity ?

Summary of Answers :

The frequency of inspection prescribed by the banks varies from once in 6 months to once in 18 months. The majority of the banks, however, have laid down that the branches should be inspected at least once in every year.

Question No. 23.4.1

What qualifications are prescribed for inspectors/auditors? Are they selected after an interview from a panel of names or on the basis of previous confidential reports? For what periods are they appointed?

Question No. 23.4.2

In whom does the selection of inspectors/auditors rest?

Summary of Answers :

Inspectors/auditors are selected for the job by most of the banks on the basis of their previous experience. Some of the banks have also started recruiting Chartered Accountants and/or graduates with C.A.I.I.B. for discharging the duties of inspectors/auditors. Appointments are made by senior officials or staff committees and in the case of small banks by the Board of Directors. A few banks appoint inspectors for a period of two to four years but most of them have not prescribed any period for the purpose.

Question No. 23.4.3

What methods are adopted in your bank for training the officials selected as inspectors/auditors?

Summary of Answers :

Training is imparted to inspectors/auditors by some of the banks by deputing them to work as assistants to senior inspectors/auditors for periods ranging between six months and one year. Others do not have any specific scheme for training them and they have either stated that the necessary training is acquired by them in the Bankers Training College and by going through Books of Instructions and circulars or that no training is considered necessary as only experienced officials are appointed as internal auditors/inspectors.

Question No. 23.4.5

As inspectors/auditors would be inspecting/auditing branches in charge of their colleagues, how is it ensured that their reports are unbiased?

Summary of Answers :

The various measures adopted by the banks can be classified as under :—

(i) The Inspecting Officers are not allowed to inspect the same branch consecutively.

(ii) Final audit report is so designed as to leave very little scope for unfair or untrue comments.

(iii) Officers in one circle are asked to inspect branches in another circle.

(iv) A few banks have stated that auditors/inspectors are persons of high integrity and, therefore, there is no necessity of taking any special care.

Question No. 23.5.1

Do the reports submitted by inspectors/auditors cover all the activities of a branch—operational, administrative and developmental—or are they limited to comments on the books of account and propriety of transactions?

Summary of Answers :

In respect of 40 banks (14 public sector, 4 foreign and 22 Indian banks in private sector), reports cover all the activities of a branch. In case of 2 nationalised banks, reports do not cover developmental activities. In case of 9 banks (2 nationalised banks, 3 other scheduled banks and 4 foreign banks), reports cover comments only on books of account and propriety of transactions.

Question No. 23.5.3

Does the audit of a branch cover all transactions since the previous one? If not, which transactions are fully checked and which test checked? For what reasons is a test check of certain transactions considered sufficient?

Summary of Answers :

22 banks (6 nationalised banks, 8 other scheduled banks, 4 foreign banks and 4 non-scheduled banks) have stated that audit of a branch covers all transactions. Other banks have stated that test checks of goods pledged/hypothecated, interest calculations, advances against gold ornaments, credit vouchers in profit and loss account, account opening forms, etc., are made as full checking would not be feasible in view of heavy transactions.

Question No. 23.5.4

If inspectors/auditors are required to make an assessment of the business potential of the area served by a branch and the actual performance achieved, what guidelines have been laid down to enable these officials to make a proper, realistic assessment of the potential ?

Summary of Answers :

The various guidelines detailed by banks can be classified as under :

- (i) Compare the performance of the branch with that of other banks' branches at the same place.
- (ii) Discuss with the branch officials and constituents about the potentialities of the place.
- (iii) Compare the performance with survey reports prepared before the branch was opened.
- (iv) Evaluate the achievement on the basis of the record of trade, industry and crops maintained at the branch.

Question No. 23.5.5

In regard to advances granted, do your inspectors/auditors examine the safety thereof only from the point of view of the sufficiency of the security furnished ? Or, are they enjoined to review the advances from the points of view of the operations in the relative accounts, detailed assessment of the financial position of the borrower, etc. ? If so, what are the specific instructions issued to your inspectors/auditors in this regard ?

Summary of Answers :

Banks have generally stated that advances are examined by inspectors from the point of view of security and operations in the account and they also assess financial position of the borrowers. A few of the banks, however, feel that inspectors would not have sufficient time to go into detailed analysis of the financial position of borrowers.

Question No. 23.6.1

In what manner are audit/inspection reports processed ? To whom are they finally submitted ?

Summary of Answers :

There appear to be two methods of processing reports:

- (a) A copy of the report is given to the branch concerned and the report is considered at the head office when its replies are received.

(b) As soon as the report is received, the salient points are examined at the head office, the matter is taken up with the branch and further processing is done on receipt of the replies.

The important irregularities in the reports are generally brought to the notice of Chief Executive Officer and in the case of small banks to the notice of the Board of Directors.

Question No. 23.6.2

What instructions have been laid down for the follow-up of reports?

Summary of Answers :

No special instructions appear to have been issued by banks regarding the follow-up of the reports. In most of the banks the follow-up of reports is being looked after by a centralised department and relevant extracts from the report are sent for necessary action to the concerned departments. In the case of a few banks, however, this work has been entrusted to regional offices.

BANKING FRAUDS AND FORGERIES

Question No. 24.2.1

In how many offices have you introduced the system of examination of instruments presented for collection/payment under ultra-violet ray equipment? What instructions have been laid down for the staff concerned in regard to which instruments should be examined?

Summary of Answers :

NUMBER OF BANKS WHICH HAVE INTRODUCED ULTRA-VIOLET RAY EQUIPMENT

Category of banks	No. of reporting banks	Banks which have introduced the system		
		Number	Total No. of offices* in India	No. of offices at which introduced
Public sector banks	17	12	3,775
Foreign banks	10	3	25
Other scheduled banks	19	6	242
Non-scheduled banks	9	—	—

Banks have issued varied instructions for examination of the instruments under the equipment. These can be broadly classified as under :—

- (i) Discretion has been allowed to branch agents, stipulating that examination should be made whenever there is suspicion.
- (ii) Only cheques presented on the counter for cash payment in excess of a specified amount (which ranges between Rs. 500 and Rs. 5,000) are examined.
- (iii) Some of the banks examine clearing instruments also if they exceed specified amounts (Rs. 2,000 to Rs. 15,000).
- (iv) Some of the banks examine all instruments presented for payment or collection.

Question. No. 24.2.2

Would you recommend that it would be desirable for banks to instal ultra-violet ray equipment at all branches ?

Summary of Answers :

The answers can be classified as under :—

- (i) 16 banks have stated that it is desirable to introduce the system at all branches.
- (ii) 12 banks feel that it should be introduced at large branches where payments are heavy.
- (iii) 14 banks feel that it is not necessary to have this equipment, the reasons being that:
 - (a) if the alteration is not visible to the naked eye banks are protected under the Negotiable Instruments Act ;
 - (b) the alterations made skilfully cannot be detected by this machine and, therefore, it has only a limited utility ; and
 - (c) the machines are costly and the banks would not be in a position to provide them to all their branches.
- (iv) Small banks feel that they cannot afford the instrument but bigger banks may use it.

Question No. 24.3.1

At how many offices in your bank have protectograph machines for writing up of drafts and mail transfers been introduced ? Do you consider that these machines safeguard banks fully against frauds ?

Summary of Answers :

It is observed from the replies that out of 55 banks 44 banks are having protectograph machines at their branches. However, some of the banks are using them at all their branches, while others are using them only at larger branches. As regards the protection afforded by these machines, the banks are generally of the view that they minimise the risk of alteration of the amount and payee's name by chemical means.

Question No. 24.4.1

What measures, in your view, should banks take to minimise the scope for perpetration of frauds? If your bank has taken any special steps which have been successful, these may please be listed.

Summary of Answers :

The measures suggested are :—

- (i) Proper care should be taken while recruiting the staff by giving stress on their honesty and not only on their intelligence.
- (ii) There should be rotation of staff from one desk to another.
- (iii) Equipments like ultra-violet rays and protectograph machines should be used.
- (iv) Code system to be used for M.Ts. and D.Ds.
- (v) A system for surprise checking of the offices should be strengthened.
- (vi) Crossings should be printed on the cheque forms.
- (vii) Specimen signature sheets should be kept under lock and key and only the officers should be allowed to handle them.
- (viii) While opening the accounts for the customers they should be properly introduced by a party known to the bank and when the payment is made to a stranger, care should be exercised.
- (ix) Inward dak may be opened only by a responsible officer so that there would not be any chances for members of the staff to tamper with the instruments received through post.

PREMISES

Question No. 25.1.1

On what basis are the space requirements of your offices determined? Are any special steps taken to see that your staff work in a congenial environment? If so, what are they?

Summary of Answers :

Various factors such as the strength of staff, volume of business, prospects of development, etc., are taken into account by banks while determining the space required for an office. However, due to paucity of suitable premises, buildings are often taken on lease even though they lack essential facilities and arrangements are subsequently made for providing adequate light, ventilation, sanitary facilities, cooler, lunch room, etc. Inspectors/auditors are required by some of the banks to see during their inspection/audit that the space is adequate, the premises are kept neat and clean and necessary amenities are provided to the members of the staff and the public.

Question No. 25.1.2

The premises in which some of the offices of commercial banks are housed — especially the older offices — lack amenities either for the public or the staff. Do you have a system of reviewing such cases and a machinery for taking essential follow-up action ?

Summary of Answers :

While most of the banks do not seem to have any systematic arrangement for reviewing the position in this regard, necessary action is taken by them in one of the following ways :—

- (i) Complaints from the public and the staff in regard to inadequate or inconvenient premises are looked into.
- (ii) Bank's senior executive officers or inspectors point out the deficiencies during their visits to branches and necessary action is initiated.

A few banks, however, have a regular system for review of the position of premises once every three years or so by Establishment/Premises Department. The Branch Managers are also required to submit their comments in this regard periodically.

Question No. 25.2.1

What policy has been laid down in your bank in regard to owning/leasing of premises and on what is it based ?

Summary of Answers :

The banks have not adopted any specific policy in regard to owning or leasing premises and decisions are made in individual cases on the basis of

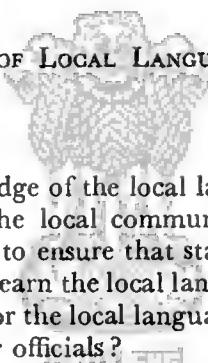
the prevailing circumstances. Generally, however, bigger banks prefer to have their own premises in large cities while smaller banks seem to go in for only leased premises except those for the head office.

Question No. 25.4.1

Do you have a department in your bank looking after premises ? If so, what are its functions ? Have you employed any civil engineers to look after premises ?

Summary of Answers :

Banks have either a separate premises department or the work is entrusted to general establishment or other similar departments. 12 banks (9 banks from the public sector and 3 other scheduled banks) had employed civil engineers to look after the premises.


USE OF LOCAL LANGUAGES

Question No. 26.1.1

Do you agree that knowledge of the local language may be of advantage in establishing rapport with the local community ? If you do, what steps have been taken in your bank to ensure that staff postings subserve this end and to encourage your staff to learn the local language ? Or, do you consider that knowledge of the locality or the local language is likely to militate against objectivity on the part of your officials ?

Summary of Answers :

The banks which are regional in character do not encounter the problems posed in the question. As regards the banks operating in more than one State or on all-India level, the selection of staff is done on regional basis. Officers are also posted to various places taking into account, as far as possible, their knowledge of local language/s. Where this is not possible due to administrative exigencies, the officers are encouraged to learn local languages. It has also been stated that knowledge of local language is not likely to militate against objectivity on the part of officials but on the other hand it may help them in understanding the problems of customers better.

As regards the foreign banks, their operations are mainly restricted to metropolitan cities where use of English is prevalent. Some of the British banks encourage their officers to learn local languages by giving rewards to those who pass examinations.

WORKING HOURS

Question No. 26.2.1

Do you consider any changes in the present banking hours desirable ? If so, what are your suggestions ?

Summary of Answers :

The replies received contain widely different views which are listed below :—

- (i) No change in the present banking hours is necessary ;
- (ii) Working hours in residential localities should be in the morning and evening ;
- (iii) Working hours in rural areas should be suited to the convenience of farmers ;
- (iv) Saturdays should be declared as holidays besides Sundays and working hours on other days should be suitably increased. (It has been stated in support of this suggestion that incidence of overtime on Saturdays is very large);
- (v) Sunday should be a working day and one of the other week days should be a holiday ;
- (vi) Saturdays should be considered as full working days instead of half-working days as at present ;
- (vii) The present banking hours should be increased by one hour in cities and by half-an-hour in rural areas ;
- (viii) The present banking hours should be shortened by half-an-hour ;
- (ix) Branches of various banks should be divided into two categories ; some may start working early in the morning while others may remain open late in the night.

Question No. 26.2.2

In view of the emphasis on banks branching out in rural areas, do you feel that it would be an advantage for branches in these areas to adopt shorter working hours for the public to enable the staff to contact the members of the local community for reasons of business development ?

Summary of Answers :

Majority of the banks are in favour of reducing working hours at rural branches (particularly the one-man offices) to enable the officials to contact the customers. Two of these banks have stated that shorter business hours should be tried on experimental basis, in the first instance. The banks which are opposed to this idea have adduced the following arguments :—

- (i) Hours should not be reduced but any member of staff who has to do canvassing may either be allowed to go early or extra remuneration may be paid to him for doing this work after office hours.
- (ii) Working hours should be longer in order to accommodate people who may have to come from long distance, *i.e.*, surrounding villages and fields.

Question No. 26.2.3

Do you consider it would be feasible, from the promotional and convenience points of view, for banks to maintain skeleton services, *e.g.*, personal encashments on public holidays? If yes, please furnish your suggestions.

Summary of Answers :

Only a few banks are in favour of introducing skeleton services on public holidays by either paying overtime to the members of the staff who are required to attend on those days or by giving them compensatory holidays. One of the banks has suggested that services on holidays should be rendered through a mobile bank-van instead of keeping the regular office open. The reasons given by the banks who are opposed to the idea are as under :—

- (i) If the facility is extended to a particular type of customers only, others will resent it.
- (ii) Compared to the administrative expenses and the adjustment with labour legislation such as Shops and Establishment Act, etc., the advantages will not be commensurate. Only a few persons will take advantage of the service as the members of the public are already accustomed to the idea of Sundays being holidays.

Question No. 20.1.5

Having regard to (a) staff costs including overtime and (b) the limited working hours, the question of banks working on Saturdays could be examined from the following points of view :

- (a) Closure subject to working hours on week days being extended;

- (b) Closure only in the metropolitan and urban areas;
- (c) Provision of only essential services, e.g., personal encashments, payment of T.T's., etc., to avoid public inconvenience.

What are your reasoned views on the issue raised which may be examined from the angles of cost/benefit/convenience to the public ?

Summary of Answers :

Ten public sector banks, twelve private sector banks and two foreign banks are against closure on Saturdays. One other public sector bank has suggested that the different banks should have holidays on different days to avoid inconvenience to the public. Two other small banks in the private sector have suggested full holidays on one or two Saturdays in a month. Four public sector banks, seven private sector banks and four exchange banks favour alternative (a) in the question. One public sector bank favours alternative (b) with alternative (c) being followed in rural areas. Another public sector bank favours alternative (b) and two private sector banks are for alternative (c). The views of other banks are either not forthcoming or not categorical.

One of the nationalised banks arguing for *status quo* has pointed out that the banking habit is yet to develop and any change at this juncture might cripple the habit while no doubt helping the bank employees. The banks which favour a change are of the view that the public will adjust itself to change and that a longer rest to employees, as in other concerns in the private sector, would do good and costs would be less.

NIGHT SAFE FACILITY

Question No. 26.2.4

What are your views on the provision of night safe facilities ? In which type of areas, in your view, would this facility be welcome ?

Summary of Answers :

Most of the banks have opined that the night safe facilities are useful in big cities where the business is conducted late at night and police protection is available. If this facility is provided, businessmen, before going home, can deposit their cash and other valuables in the night safe.

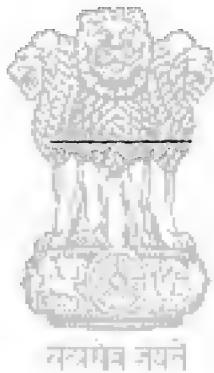
WEEKLY BALANCING OF BOOKS

Question No. 26.3.1

Would you consider it desirable from the point of view of administrative convenience to change the weekly balancing day from Friday to, say, Tuesday or Wednesday in order to better suit the preparation of various weekly returns etc. ?

Summary of Answers :

The majority of the banks is not in favour of changing the weekly balancing day from Friday to any other day ; a few banks, however, feel that the balancing day should be changed and have variously suggested Tuesday, Wednesday, Thursday and even Saturday for the purpose. One of the banks has suggested that balancing of different departments may be staggered and done on different days.



ANNEXURE V

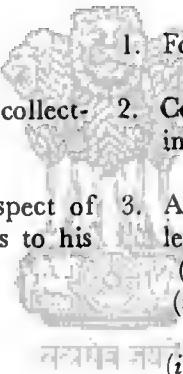
ILLUSTRATION OF ONE OF THE MANIFOLD SYSTEMS
FOR COLLECTION OF BILLS(i) *Outward Bills*

The manifold for bills purchased has five sheets and that for bills under collection has four sheets. The manifold forms, except the last copy, are printed on thin paper so that the carbon impressions become legible ; the last copy is printed on ledger paper as it serves the purpose of the bills register.

The manifold copies serve the following purposes :

*Purchase Bills**Collection Bills*

1. Folder copy.	1. Folder copy.
2. Covering schedule to the collecting branch or bank.	2. Covering schedule to the collecting branch or bank.
3. Advice to the party in respect of credit of purchase proceeds to his account.	3. Advice to the party (to be released on realisation) regarding : (i) payment of the bill, (ii) the net amount credited to his account, and (iii) the charges recovered.
4. Realisation advice to the party.	4. Register copy (obviating the need for maintaining the bills register).
5. Register copy (obviating the need for maintaining the bills register).	



The first copy of the manifold (folder copy) has all the columns visible while in the other sheets only the relevant columns are visible, the remaining columns being blurred. The manifolds are serially numbered and a numbering register, with columns for date, bill number, drawer/account and amount is maintained to facilitate reference. The realisation of the bills is indicated by circling the relative serial numbers.

As regards the cheques sent for collection to the bank's own branches, a separate form of the manifold (which is in triplicate) is used. A number of cheques drawn on a particular place can be entered in the same mani-

fold, whereas in the case of bills a separate manifold has to be used for each bill. Two copies of the cheques manifold are sent to the collecting branch, while the third is retained by the forwarding branch for record. On realisation of the cheques, the collecting branch returns one of the copies of the manifold to the forwarding branch as realisation advice. Outward Cheques Register is not dispensed with as it has only a few columns and can serve the purpose of the numbering register. As regards the cheques sent to other banks for collection, the manifold has two sheets, one of which is used as covering schedule and the other as office record.

(ii) Inward Bills

The manifold for inward documentary and clean bills has six sheets. The first five sheets are printed on thin paper and the sixth sheet on the ledger paper. These sheets are used as under :—

1. Folder copy.
2. Presentation memo to the drawee.
3. Cost memo to be given to the drawee when the bill is realised.
4. Credit voucher for office use when the bill is realised.
5. Advice of payment to the forwarding branch/bank.
6. Register copy (obviating the need for maintaining the Inward Bills Register).

As in the case of outward bills, the manifolds are serially numbered and a numbering register maintained to facilitate reference.

As regards the cheques received for collection, the forwarding branch sends the covering schedule in duplicate ; on realisation of the cheques, the first copy is used as a credit voucher while the second copy is used as realisation advice to be sent to the forwarding branch. No inward manifold is, therefore, necessary in the case of cheques. Cheques on receipt are dealt with immediately by the Clearing/Deposit Accounts Departments and, therefore, Inward Cheques Register is not maintained.

ANNEXURE VI

INTRODUCTION OF GIRO SYSTEM IN INDIA*

INTRODUCTORY

In terms of one of the questions asked by the Banking Commission to the commercial banks in its questionnaire, they were requested to express their views about the feasibility of introducing a Giro System in India operated upon (a) by the banks or (b) through the post office. Only 31 banks responded to the question and even out of these only a few gave arguments in support of their views. While 20 banks favour the introduction of Giro System, 11 have expressed doubts about the utility or the feasibility of doing so. Out of the banks which are in favour, 16 desire the operation of Giro System by the banks and only 4 through the post office. The main burden of the argument of the banks, which do not favour the introduction of the System in India at the present juncture, is that the time is not opportune for it as : firstly, the banking habit in India is still in a formative stage and the practice of making payments by transfer between accounts is not very much in vogue ; secondly, wide network of branches, centralised system of accounting and quick communication facilities, which are the essential prerequisites for a Giro System, are non-existent in India ; and thirdly, a postal Giro requires a far more efficient organisation (with computerisation and linking of the post offices to the centralised computer) than is existent in India. It may be stated in this connection that one of the main purposes of Giro System is to encourage banking habit in order to reduce the use of currency for settlement of transactions and, therefore, the fact that the banking habit in India is in a formative stage should be considered as an argument in favour of introduction of Giro rather than against it. Further, the Giro System was introduced in some of the Western countries even before computers were invented. In view of the above and as the Banking Commission has to make recommendations for development of banking from a long-term point of view, it is necessary to examine the question of introduction of Giro System in its various aspects.

Genesis of the Giro and its Spread in Different Countries

2. Before considering the feasibility of introduction of a Giro System in India, in its full-fledged or modified form, it may be worthwhile to recount in brief the genesis of the Giro System and its working abroad. The Giro System had its origin in Austria where, on the 13th January 1883, a credit

* This paper has been prepared by Shri K. B. Chore, Convener, with the assistance of Shri V. V. Nachane. Some of the information used has been taken from the earlier notes available on the subject.

transfer system designed to minimise the public demand for coinage was introduced by Dr. Georg Coch, a director of that country's post office savings bank. It was, thereafter, adopted by different countries in Europe as well as in Asia. A table indicating the year of introduction of Giro System in some of the countries, nature of charges levied by them to customers, number of accounts and number of transactions is given in Appendix I. In U.K., the postal Giro was introduced recently on the 18th October 1968.

Main Function of the Giro

3. The main function of the Giro is to provide transfer of funds from the account of one customer to that of another, on the basis of instructions, without the use of cheques. It is a mechanism for making cashless transfers that differs markedly from payment by cheques. Both in the payment by cheques and in the Giro the transfer of money claim is substituted for actual transfer of currency. In the former case, the payer consigns his claim to the payee and the transaction is not complete until the cheque has been presented by the latter to the bank on which it is drawn. Under the Giro mechanism, the payer directly orders the Giro centre to transfer a specified amount to the account of the payee and no action or co-operation on the part of the latter is required. A Giro transfer, thus, is effected exclusively by book-keeping entries. Claims against a Giro System pass among account holders to form a "circle" (e.g., the Italian 'Giro' and the Greek 'Gyros') from which the "Giro" derives its name.

How Transfer of Funds is Effected

4. The system provides a speedy, troublefree, inexpensive mode of transfer of funds. A remitter issues instructions in the prescribed form for debiting to his account a specified amount of money and crediting the same to the account of another Giro account holder. The blank transfer forms are supplied by the Giro centres to the account holders who after filling them can either hand them over at the Giro centre or send them by post. After effecting the transfer, the Giro centre can inform both the payer and the payee that the transfer has been made and/or send statements of account at prescribed intervals to each of them.

Other Functions of Giro

5. Apart from the transfer of funds from one account to another, the Giro centres accept cash payments in the accounts from the account holders as well as non-account holders. Thus, even those persons, who do not wish to maintain Giro accounts, can pay in their dues to others, e.g., in respect of electric bills or insurance premia or house rent, by making payments in Giro accounts of the respective concerns or persons. Giro also allows withdrawals from the accounts in cash under specified rules and conditions.

Further, it can issue authorised pay orders which can serve the purpose of travellers' cheques or postal orders for making payment for purchases, expenses, etc. The Giro can also undertake to carry out standing instructions in regard to the payment of school/college fees, telephone bills, insurance premia, etc. The wages and salaries of employees can be disbursed by the employers by direct credit of the amounts to their Giro accounts.

Advantages of Giro System

6. The main advantage of the Giro System is that, since the accounts are centralised at one centre, the need for an elaborate clearing system, which is required in the method of payment by cheques, is dispensed with. It also minimises the need for handling and transport of currency. It eliminates the possibility of frauds involved in theft, forgery or fraudulent alterations of cheques and drafts. It enables the public utility concerns like insurance companies, telephone companies, etc., to collect their dues by issuing their premia notices, bills, etc., in the form of Giro pay-in-slips. Further, the Giro System is readily adaptable to modern office techniques ; it requires only two pieces of information for each individual transaction—the payee's bank Giro number and the sum to be remitted.

The Working of Giro

7. The basic theory behind Giro is that balances build up as more people use the service but, in general, money once deposited does not move out ; it is simply transferred from one account to another. The funds deposited by the account holders are not normally subject to short-term fluctuations. The earnings of Giro System are derived from the income received on investment of the funds held by it as deposits of account holders, on which no interest is normally paid, as also from the charges levied on the various types of services rendered to the account holders and other customers. In some of the countries where expenses are largely met from income on investments, most of the services are free. In certain others, fee is levied for different types of transactions, e.g., for opening of accounts, for deposit and withdrawal of funds, issue of authorised pay orders, sending the credit and debit advices and for supply of blank forms, envelopes, etc., to the customers.

Postal Giro System in Sweden

8. The postal and bank Giro Systems in Sweden, which are running parallel in mutual harmony, are stated to be highly developed and deeply integrated with the every day life of the people. The postal service was inaugurated in 1925 by the Swedish post office and did not encounter any opposition from the commercial banks as they regarded the cheque and transfer services required by the small depositors as a completely unrewarding facet of banking. In 1962, the Swedish postal Giro had 4.62 lakhs accounts and 2580 lakhs transactions ; the total amount transferred between

accounts (without recourse to bank notes and coinage) was as much as £2182 crores ; the average balance per account holder was £ 411. The Giro account holder is supplied by the Giro service with free postal cheques and postal order forms, overprinted with his name, address and account number, and the postage free envelopes, printed with the name and address of the Giro clearing houses, to send the Giro forms in. No charges are levied for transfers from account to account. A confirmation of each transaction, in the shape of statements of account showing the credit balance before and after each transaction, are sent to both the account holders concerned free of charge. Besides, the debit notification section in the transfer form is returned to the remitter as confirmation of the operation and the beneficiary also receives, free of charge, the credit notification section of the Giro postal cheque sent to the Giro clearance office by the remitter together with any message written by him in the space provided for the purpose. If the transaction is with a non-account holder, the account holder—remitter is charged 3d. irrespective of the amount remitted. The Giro is an autonomous department of the post office bank and is financially independent. The income of postal Giro System in 1962 aggregated £ 1.08 crores comprising £ 0.86 crore as income from investments and £ 0.22 crore service fees as well as sale of Giro in-payment and other forms. As against this, the cost comprising the payment to post office, staff salary and administration, organisation and other expenses, totalled £ 1.03 crores, leaving the profit of over £ 0.05 crore. Other facilities offered by postal Giro in Sweden are : Collection of cash-on-delivery of postal packets, postal order payment system, periodical payment service, etc. The total personnel employed by the postal Giro organisation in 1961 was 2,487. On an average, the Giro handles every day 5,00,000 in-payment forms, 1,66,000 cheque forms and 1,30,000 postal order forms. It despatches 1,10,000 statements of account to account holders every day.



Bank Giro System in Sweden

9. The bank Giro in Sweden was established in 1959 by 16 commercial bank groups, with a central clearing office in Stockholm. This centre manages the settlement of transactions between the banks, notifies the payees' branch offices and handles the central records. There is a daily settlement between the participating banks. The Giro facilities are provided to every current account holder free of charge. A six figure account number is given to each account holder and the Giro System manifold forms, overprinted with account holder's name and address, are also supplied to him. The bank Giro's clearing offers three basic services :—

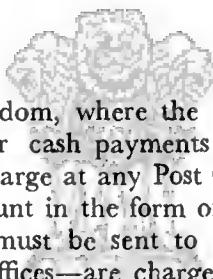
- (1) Collection of cash from those without accounts and its transmission as a credit transfer to an account holder.
- (2) Transfer of credit between account holders.
- (3) Transfer of credit from an account holder and its payment in cash to a person who requires payment in this way.

By the middle of 1962, the bank Giro service had attracted 90,000 customers, most of which were firms. The details of the organisation of bank Giro service are given in Appendix II.

Giro System in Japan

10. The postal Giro System was introduced in Japan in 1906. In 1961, the total number of account holders was 4.49 lakhs and the annual average credit in an account expressed in pounds sterling was about 19. Till recently, interest @2.28% was being paid to the account holders on the same lines as for savings deposits but at present no interest is payable. The fee for opening an account is 50 Yen. For deposits and withdrawals, the fee is based on the amount of the transaction, no fee being levied on deposits made by an account holder to his own account at a Post Office designated by him for the purpose. On deposits at a Post Office other than the designated one, the fee payable on deposits of 500, 1,000 and 1,00,000 Yen respectively is 20, 35 and 300 Yen.

Giro System in U.K.



11. In the United Kingdom, where the postal Giro service has been recently introduced, except for cash payments into the customer's account, which can be made free of charge at any Post Office, all transactions attract fees. Payments into the account in the form of cheques, dividend warrants, bankers' drafts, etc.—which must be sent to the Giro centre, since they cannot be handled at Post Offices—are charged at 6d. per item. There is a charge of 9d. for the cash withdrawals upto £ 20 which the account holder can make at a designated Post Office. The account holder can draw money at any Post Office by the use of Pay Orders preauthorised by the Giro centre, provided the order does not exceed £ 50 ; if it does, a Post Office has to be nominated so that the money will be available. The charge is 9d. per withdrawal upto £ 50 and 2s. above that figure. Transfer between Giro accounts and accounts held in the commercial banking system cost 6d. per transfer either way plus stationery charges. A non-account holder can pay cash into someone else's account at a charge of 9d. for each deposit. A Giro account in U.K. can be opened with an initial deposit of not less than £ 5.

At the end of its first year's operations, the Giro was having 1,60,000 accounts with nearly £ 23 million of deposits. Transactions were running to about 6,00,000 per week. The Giro also renders A.D.T., i.e., Automatic Debit Transfer service, under which a supplier arranges with his customers that their Giro accounts will be automatically debited while his is credited after an agreed interval following the despatch of invoices. The actual capital expenditure incurred for the Giro in U.K. and the annual costs are not readily available but they had been estimated in November 1968 at £ 16 million each in an article in the Bankers' Magazine.

The banking system in U.K. also renders services similar to that of Giro. The bank Giro had its origin in the credit clearing system which was introduced in 1960. The volume of funds passing through it has grown from £ 3,900 million to over £ 10,000 million.

Feasibility of Introducing a Postal Giro in India

12. In most of the European countries where postal Giro has proved a success, every transfer or payment by cheque attracts stamp duty and the Giro, therefore, has the advantage of providing a comparatively cheap mode of effecting transfer of funds and making payments. The Giro has found favour in these countries with modest businessmen and wage earners whom the commercial banks had never tried to court since the accounts of such persons were considered by them as a liability. Initially, the commercial banks resented the inauguration of the postal Giro System, but eventually they welcomed it because they were relieved of so much unremunerative work and also as the postal Giro service had the effect of making more people bank minded and of relieving the commercial banks of unprofitable small business. The banking system in these countries did not experience any effective competition from the postal Giro. Conditions in India, however, are different. Small depositors are welcomed by the commercial banks and they maintain savings bank accounts with liberal rules for acceptance and payment of money and also permit operations by cheques which are not subject to stamp duty in India as in the European countries. They allow deposits into and withdrawal of funds from the accounts free of charge for which some of the postal Giros in foreign countries levy charges. They also provide the facility of collection of cheques to savings bank account holders who have been properly introduced. The commercial banks are already making efforts for deposit mobilisation by spreading their operations in the rural areas and through the introduction of new deposit schemes. The postal Giro, in fact, does not perform any function which the commercial banks are not capable of handling. Besides, the postal organisation in India, despite the various measures taken for attracting deposits, has not been able to develop its banking business to any appreciable extent. This is evident from the fact that the number of cheques presented in the Bombay Clearing House on or by the post office savings bank are insignificant (*vide* Appendix III). The conditions thus do not seem to warrant introduction of a postal Giro in the country.

Feasibility of Introducing a Bank Giro in India

13. It is no doubt true that the banks at present do not provide a centralised monetary transfer system from one bank account to an account in another bank free of charge or for a moderate fee but efforts to devise a suitable scheme for facilitating remittances are being made by the co-ordination committee of the public sector banks. A tentative scheme in this connection

has been formulated by a Study Group appointed by it. This scheme would not, however, have the advantage of the centralised accounting system which is the special feature of the Giro. It seems desirable, therefore, to graft the principle of Giro on to the banking system.

Clearing of Inter-Bank Credit Transactions

14. An alternate method for facilitating transfer of funds between accounts which could be thought of is introduction of the system for clearing inter-bank credit transactions. Under this system, on instructions from an account holder, the bank will debit his account with a specified sum of money and give credit to another bank for the amount to be transferred to the account of a customer of that bank. Such credits will not be put through the accounts maintained by the banks with each other or with the State Bank of India or the Reserve Bank of India as is being done now. They will instead be cleared in the clearing house in more or less the same manner as the cheques are cleared, on the basis of lists presented by banks. This scheme has no doubt the advantage of reducing the entries in the inter-bank accounts. Such a system would not, however, decrease the work in the clearing houses as although the volume of cheque clearance will be reduced, there will be increase in the work on account of credit clearance. In the metropolitan cities, the banks are finding it extremely difficult to cope with the increased volume of clearing work and the question of relieving the banks of this burden, to some extent, by introduction of suburban clearing houses, simplification of clearing procedures and courier system, is already engaging the attention of the Indian Banks' Association. It will, therefore, be preferable to have a separate credit clearing system in the form of a Bank Giro rather than to tag on the credit clearing work to the existing clearing houses.

Working of the Proposed Bank Giro and its Advantages

15. The next question that requires consideration is whether the Giro System should cover the entire country or a beginning should initially be made in the metropolitan cities. Considering the vast expanse of the country, a full-fledged Giro System may not be workable at present. An independent agency with the collaboration of banks may instead be created, embodying the principles of Giro, within the metropolitan cities of Bombay, Calcutta, Delhi and Madras and in between these cities in the first instance. It may be possible to work such an agency without full-fledged computerization, which would involve heavy capital outlay, by adopting intermediate technology. The proposed bank Giro will not perform all the functions which a postal Giro is expected to do but will, more or less, assume the form of a sophisticated credit clearing system. Its offices at the metropolitan cities will clear the credit transactions within the cities independently. The transactions in between any two cities will be cleared by the Giro centre at the payee's end. This is explained further below :

A. Clearance of Transactions within the City

Account holders (to whom the Giro facility has been extended), of all the participating banks, will be allotted a Giro number each, which will have to be mentioned by them as well as by the banks in all forms and correspondence. The Giro centre will maintain a list of all such account holders arranged according to the numbers allotted, together with their addresses and the names of banks and branches with whom they are maintaining accounts. The steps involved in a transaction would be as under :

- (1) The account holder takes or sends by ordinary postal delivery, the prescribed form to his bank requesting it to debit his account with a specified amount and credit the same to the account of another person with another bank. This form will be in quadruplicate, of which one copy will be retained by the remitter and three sent to the branch.
- (2) The concerned branch, after checking, will debit his account with the amount to be transferred, using one of the three copies as a voucher and sending one copy to the remitter as a debit advice.
- (3) The particulars of the transaction along with similar other transactions will be entered in a 'bank Giro clearing order form' by the branch at the end of the day and this form (after keeping one copy for its record) will be sent by the branch to the Giro centre together with a copy of each of the remitters' requisition forms. This particular copy of the requisition form will have specified space in which the remitter can write his short message to the payee (as in the case of postal money orders).
- (4) The Giro centre will advise the concerned branch of the credit, by issuing credit advice form in which the beneficiary's name, address, account number and the amount will be entered. One copy of this advice together with the copy of the remitter's application form in which his message is written will be sent to the beneficiary. (After gaining some experience, the question of pre-printing the credit advice forms with all the particulars except the amount, in respect of customers who have frequent transactions, can be considered).
- (5) There will be daily settlement of transactions in between the banks and a daily report will be sent by Giro to the head or main office of each bank.

B. Transactions in between Cities

- (1) The first three steps will be the same as in the case of local transactions except that 'Giro clearing order form' will be sent not to the local Giro centre but to the Giro centre at the payee's end.

(2) On receipt of the list, the Giro centre concerned will in the same way as in 'A' above, advise the beneficiary and the concerned branch of his bank of the credit as also make the necessary settlement entries in between the banks under advice to them.

It may be mentioned that in Sweden there is only one Bank Giro clearing centre at Stockholm but in the scheme proposed above, separate clearing centres are suggested for metropolitan cities to reduce the time-lag in clearance of heavy volume of local transactions at each of these cities.

Apart from the transfer of funds from one bank account to another, the bank Giro may also undertake to clear transactions of the following nature :

- (i) Remittance of funds through a branch of a bank by a non-account holder, by paying cash, to an account holder in another bank in the same city or another metropolitan city.
- (ii) Remittance of funds by an account holder through his bank to a non-account holder through another bank in the same city or another metropolitan city by issue of a pay order.
- (iii) The Giro may also issue travellers' cheques and drafts for payment to the beneficiaries by branches of the collaborating banks.

The proposed bank Giro will have several advantages. The transfer of funds will be prompt as a mechanised accounting system will process these transactions. The collection of bills by the public utility concerns and establishments which cater to the needs of a large number of consumers will be facilitated. Pressure on the clearing houses would be considerably less as the use of cheques for settlement of transactions will be reduced. Similarly, the volume of cheque collections in between the metropolitan cities will also be considerably reduced. It may also be possible that the mail order business, which has not adequately developed in India, may get a fillip by facilitating transfer of funds from one centre to another. The bank Giro may also be able to reduce the charges levied at present by the banks for remittance of funds as also to make transfer of funds between one account and another free, as the mechanised and centralised accounting system is expected to reduce the clerical labour and consequently the cost. The detailed planning of the organisation of the Giro, the scope of its functions, the accounting system, the economics of the project, the technical details, the framing of the rules and regulations for levying of charges, etc., will have to be worked out by a thorough study of the bank Giro System in the countries where it has been successful, and in consultation with the banks which would be participating in the system. The question of extending the coverage of the system to other cities and towns in the country may have to be considered later after the system takes root.

APPENDIX I

Name of the Country	Year of inauguration of Giro	Year to which information relates	Transaction fees	No. of account holders	Average No. of transactions per Giro a/c p.a.	Annual average credit in Giro account	
1.	2.	3.	4.	5.	6.	7.	
1. Austria	..	1883	1962	Transfers to and from non-account holders are charged fees.	1,35,094	230	£ 6,160
2. Japan	..	1906	1961	N.A.	4,49,000	N.A.	£ 19.8
3. West Germany	..	1908	1962	Nominal charges for transactions with non-account holders and transfers to foreign countries.	21,54,000	535	N.A.
4. France	..	1918	1962	-do-	52,40,000	168	£ 278
5. Sweden	..	1925	1962	Nominal charges for transactions with non-account holders and for transfers abroad except to other Scandinavian countries.	4,62,000	558	£ 411
6. Finland	..	1940	1962	Nominal charges for transactions with non-account holders.	1,03,063	490	£
7. Norway	..	1942	1962	Nominal charges for transactions with non-account holders and for transfers abroad except to other Scandinavian countries.	59,068	884	£ 1,317
8. U.A.R.	..	N.A.	1961	N.A.	569	30	N.A.

N.A.=Not available.

Statement is compiled from the information contained in "Giro Credit Transfer Systems"—by Mr. F. P. Thomson published in 1964—Reproduced with permission of the author and the publishers (Pergamon Press Ltd., Oxford, U.K.).

APPENDIX II

ORGANISATION OF BANK GIRO SERVICE IN SWEDEN*

The account holder takes, or sends by ordinary postal delivery, the forms to his bank which, after checking them, debits his account with the total amount to be transferred and then sends him a carbon copy of each form to confirm the transaction.

At the end of each day, the bank sorts the forms received into two groups :

1. Bank giro in-payment credit transfer cheque, and money order forms.
2. Bank giro debit order forms.

The total amount of the two groups and the grand total are entered on a Bank giro clearing order form :

1. The name of the remitting bank.
2. The remitting bank's clearing number.
3. The total sum (in figures) of group 1 above.
4. The total sum (in figures) of group 2 above.
5. The grand total sum (in figures) of groups 1 and 2.
6. The official stamp of the remitting bank and the date.
7. The address of the Bank Giro Centre.**
8. The authorising officer of the remitting bank.
9. The form serial number.**

The remitting bank keeps a carbon copy of this form and sends the top copy with both groups of forms by post to the Bank Giro Centre in Stockholm.

The Bank Giro Centre checks the forms and then arranges group 1 numerically according to the giro numbers. Credit advice forms preprinted with the beneficiary's name, address and account number are taken from index files and the amounts entered by adding machines. After the entries

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** Overprinted by the Bank Giro Centre.

have been checked each credit advice note is microfilmed with the in-payment and credit transfer cheque form(s) which comprise the various credits shown. All forms are then posted to the beneficiary. The credit advice note has the following information :—

1. The form serial number.
2. The individual credits.
3. The official stamp of the Bank Giro Centre and the date.
4. The centre's code number for the transaction.
5. The beneficiary's bank giro account number.
6. The beneficiary's name and address.
7. The beneficiary's bank current account number.
8. The beneficiary's bank code number.
9. The beneficiary's bank office clearing number.

Concurrently, the beneficiary's bank receives a copy of the credit advice note which it treats as a voucher to credit his account.

Bank giro money orders are mechanically endorsed as a protection against fraudulent alteration, with the amount to be paid in cash to the beneficiary when he presents the order for encashment at a bank. The endorsing machinery automatically prints out a list of the forms endorsed and the amount and this is used to control debit claims from banks encashing the orders.

The Centre renders a daily report to the head office of each bank group, showing the balance of payments position so that clearings can be kept up-to-date.

APPENDIX III

'Statement showing the number of cheques presented in the Bombay Clearing House on or by the Post Office Savings Bank.

Year	No. of cheques received	Average per working day	No. of cheques delivered	Average per working day
1958	882	3	864	3
1959	1096	4	1814	6
1960	1326	4	2317	8
1961	1473	5	2821	9
1962	1596	5	2939	10
1963	1652	6	2709	9
1964	1794	6	2394	8
1965	1735	6	5457	18
1966	2194	7	5843	19
1967	2599	9	6055	20
1968	2992	10	6894	24

ANNEXURE VII

(A) SAMPLE OF DUN & BRADSTREET AGENCY REPORT

Dun & Bradstreet, Inc.
 CD 69 JAN 5 19-
 GROCERIES & MEATS

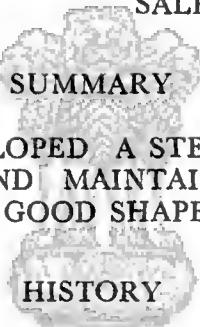
Rating
 Report Unchanged

5411
 Food Center
 GOLDSON, HAROLD J., OWNER

BUTLER GA
 TAYLOR COUNTY
 600 TURNBULL ST

RATING : F 2½
 STARTED : 1954
 NET WORTH : \$ 12,540

PAYMENTS: Discount and
 Prompt
 SALES : \$ 7,500 monthly


 SUMMARY

GOLDSON HAS DEVELOPED A STEADY TRADE IN HIS
 NEIGHBORHOOD AND MAINTAINED HIS AFFAIRS
 IN GOOD SHAPE.


 HISTORY

Style registered by the owner January 2, 1954.

GOLDSON is 36, married, a native of Butler. He went into the Navy from school in 1942 and served until 1946. He was employed by Butler Paper Box Company from 1946 to 1951. From 1951 to December 15, 1953 he was employed by Kane's Chain Grocery Stores Inc. as branch store manager and left voluntarily. He started business January 2, 1954 with \$ 5,000 savings.

OPERATION—LOCATION

Retails groceries (85%) including a wide variety of canned, dry and frozen foods ; fresh and frozen meats (10%) and fresh fruits and vegetables (5%). All sales for cash. This residential neighborhood store occupies 1,400 square feet of floor space in a one-story frame building. Owner assisted by two full-time employees and his wife helps out on Saturdays. Store open 8 A.M. to 7 P.M. Premises well-maintained.

FINANCIAL INFORMATION

Estimated financial condition at Jan. 4, 19..... :

ASSETS		LIABILITIES	
Cash on hand	\$ 200	Accts Pay not due	\$ 1,150
Cash in bank	2,221	Owing on Fix & Equip	931
Mdse	6,500		
	<hr/>		<hr/>
Total Current	8,921	Total Current	2,081
Fix & Equip	5,200	Net Worth	12,540
1953 Truck	500		
	<hr/>		<hr/>
Total Assets	14,621	TOTAL	14,621

Net Sales monthly \$ 7,500 ; monthly rent \$ 125 ; lease expires in three years ; fire insurance on merchandise and fixtures \$ 10,000.

Signed Jan. 4, 19.... FOOD CENTER BY Harold J. Goldson, Owner.

Goldson has built up a nice little business for himself. During 19...., sales totaled \$ 90,000, out of which he was able to net \$ 3,000 after monthly drawings of \$ 350. One of the things that has helped is that he opens up earlier and stays open later than the supermarkets in the nearby shopping centre. In addition, Goldson and his wife are well liked by his customers, most of whom live in the immediate vicinity and give him steady trade.

Cash was confirmed and Goldson has not had to borrow from bank. The \$ 931 owing on fixtures and equipment represents the last nine monthly instalments on a new refrigerator cabinet. He and his wife own their home, valued at \$ 15,000 free and clear.

PAYMENTS

HC	OWE	P DUE	TERMS	Dec 30	19....
1000	400	2-10-30	Disc	Sold	over 3 yrs
200		2%-10 days	Disc	Sold	2 yrs
1000	200	Net 30	Prompt	Sold	3 yrs
500		7 days	Prompt	Sold	2 yrs
(5)		C.O.D.		Cash to all	
1-5-6	(744 12)				

PLEASE NOTE WHETHER NAME, BUSINESS AND STREET ADDRESS CORRESPOND WITH YOUR INQUIRY. The foregoing report is furnished, at your request, under your subscription contract, Strict Confidence, by Dun & Bradstreet, Inc. as your agents and employers, for your exclusive use as an aid in determining the advisability of granting credit or insurance, and for no other purpose.

(B) DUN & BRADSTREET CREDIT RATING

KEY TO RATINGS

	Estimated Financial Strength	Composite Credit Appraisal			
		High	Good	Fair	Limited
Aa	Over \$ 1,000,000	A1	1	1½	2
A+	Over 750,000	A1	1	1½	2
A	\$ 500,000 to 750,000	A1	1	1½	2
B+	300,000 to 500,000	1	1½	2	2½
B	200,000 to 300,000	1	1½	2	2½
C+	125,000 to 200,000	1	1½	2	2½
C	75,000 to 125,000	1½	2	2½	3
D+	50,000 to 75,000	1½	2	2½	3
D	35,000 to 50,000	1½	2	2½	3
E	20,000 to 35,000	2	2½	3	3½
F	10,000 to 20,000	2½	3	3½	4
G	5,000 to 10,000	3	3½	4	4½
H	3,000 to 5,000	3	3½	4	4½
J	2,000 to 3,000	3	3½	4	4½
K	1,000 to 2,000	3	3½	4	4½
L	Up to 1,000	3½	4	4½	5

CLASSIFICATION AS TO BOTH ESTIMATED FINANCIAL STRENGTH AND CREDIT APPRAISAL

	Financial Strength Bracket	Explanation
1.	\$ 125,000 to \$ 1,000,000 and over	
2.	20,000 to 125,000	
3.	2,000 to 20,000	
4.	Up to 2,000	When only the numeral (1, 2, 3 or 4) appears, it is an indication that the estimated financial strength while not definitely classified, is presumed to be within the range of the (\$) figures in the corresponding bracket and that a condition is believed to exist which warrants credit in keeping with that assumption.

NOT CLASSIFIED OR ABSENCE OF RATING

The absence of a rating, expressed by the dash (—), is not to be construed as unfavourable but signifies circumstances difficult to classify within condensed rating symbols and should suggest to the subscriber the advisability of obtaining additional information.

INVESTIGATING

'Inv' in place of the rating is an abbreviation of 'investigating'. It signifies nothing than that a pending investigation was incomplete when the book in which it appears went to press. The letters "N.Q." on any written report mean not listed in the Reference Book.

DUN & BRADSTREET, INC.

Source : 'The Practical Operations and Management of a Bank' by Mr. Marshall C. Corns—Reproduced with permission of the publishers (Bankers Publishing Company, Boston, Massachusetts, U.S.A.).